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**TESTIMONY
OF
AARON S. FUJIOKA
ADMINISTRATOR
STATE PROCUREMENT OFFICE**

**TO THE
HOUSE COMMITTEES
ON
HUMAN SERVICES
AND
HEALTH**

February 05, 2009

10:30 am

HB 1525

RELATING TO MEDICAID.

Chair Mizuno, Chair Yamane and committee members, thank you for the opportunity to testify on HB 1525. This bill requires the department of human services to award Medicaid contracts to nonprofit insurance entities only.

The State Procurement Office does not support this bill. As a public entity, the state must maintain an open, fair and equitable treatment of all providers who deal with the procurement processes of the state, maximize the purchasing value of public funds, and foster broad-based competition within the free enterprise system. HRS Chapter 103F applies to all state agencies, and should not place restrictions on a specific procurement for one agency. If there is justification for this particular procurement to be restricted to non-profit organizations, it should be addressed in the competitive request for proposals document, or if it has a broader application, in the Medicaid administrative rules.

Thank you.



LINDA LINGLE
GOVERNOR
JAMES R. AIONA, JR.
LT. GOVERNOR

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TO THE HOUSE COMMITTEES ON HUMAN SERVICES AND HEALTH

TWENTY-FIFTH LEGISLATURE
Regular Session of 2009

Thursday, February 5, 2009
10:30 a.m.

TESTIMONY ON HOUSE BILL NO. 1525 – RELATING TO MEDICAID.

TO THE HONORABLE JOHN M. MIZUNO AND RYAN I. YAMANE, CHAIRS, AND MEMBERS OF THE COMMITTEES:

My name is J.P. Schmidt, State Insurance Commissioner (“Commissioner”), testifying on behalf of the Department of Commerce and Consumer Affairs (“Department”). The Department opposes this bill.

The Department believes that there should be a level playing field for insurance companies in Hawaii. We would be concerned with any bill that created a special franchise from some insurers over others because it interferes with the kind of free and open competition that can benefit consumers.

Both for-profit insurers and not-for-profit insurers have engaged in bad acts at various times. It is important to have healthy competition in all types of business and for health insurance that includes a mix of both for-profit and not-for-profit companies. Appropriate due diligence in the procurement process can screen out insurers with a proven record of problems.

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



STATE OF HAWAII
STATE COUNCIL
ON DEVELOPMENTAL DISABILITIES
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February 5, 2009

The Honorable John M. Mizuno, Chair
House Committee on Human Services
and
The Honorable Ryan I. Yamane, Chair
House Committee on Health
Twenty-Fifth Legislature
State Capitol
State of Hawaii
Honolulu, Hawaii 96813

Dear Representatives Mizuno and Yamane and Members of the Committees:

SUBJECT: HB 1525 – RELATING TO MEDICAID

The position and views expressed in this testimony do not represent nor reflect the position and views of the Departments of Health (DOH) and Human Services (DHS).

The State Council on Developmental Disabilities offers the following comments on HB 1525. The purpose of the bill is to require all future Medicaid procurement contracts to be awarded only to qualified nonprofit entities.

The Council is concerned with the proposed language to be added as a new section to Chapter 103F, Hawaii Revised Statutes. On page 2, lines 2 through 5 it states, "For the procurement of all medicaid contracts in the State, the department of human services shall solicit proposals only from nonprofit insurance entities and award contracts only to nonprofit insurance entities."

The language as written seems too broad and could be interpreted to include contracts between DHS and service providers for the Medicaid Home and Community Based Services waiver programs. This would include the following waivers administered by DHS:

1. Developmental Disabilities/Mental Retardation (DD/MR) - administered and implemented by DHS and DOH
2. HIV Community Care Program
3. Medically Fragile Community Care Program
4. Nursing Home Without Walls
5. Residential Alternatives Community Care Program

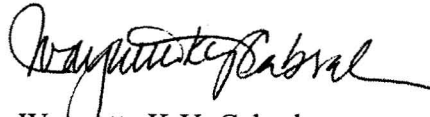
The Honorable John M. Mizuno
The Honorable Ryan I. Yamane
Page 2
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Although Section 1 of the bill specifically refers to the QUEST Expanded Access (QExA) for the aged, blind and disabled population, Section 2 addresses all Medicaid contracts in the State. If it is interpreted and implemented as such, then only nonprofit insurance entities may be awarded contracts that could include the above Medicaid waiver programs. For the DD/MR waiver program, this provision would affect over 50 nonprofit and for-profit service provider agencies that have contracts with DHS.

If it is the Legislature's intent to single out the QExA program to limit awards of contracts to only nonprofit insurance entities, then there should be language to state it. Passage of HB 1525 will change the competitive bid process under Chapter 103F and may not assure that the procurement process addresses fairness, efficiency, effectiveness, and accountability.

The Council appreciates the opportunity to present comments on HB 1525.

Sincerely,

A handwritten signature in black ink, appearing to read "Waynette K. Y. Cabral", with a long horizontal flourish extending to the right.

Waynette K. Y. Cabral
Executive Administrator



Hawai'i Primary Care Association

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To: **The House Committee on Human Services**
The Hon. John Mizuno, Chair
The Hon. Tom Brower, Vice Chair

The House Committee on Health
The Hon. Ryan I. Yamane, Chair
The Hon. Scott Y. Nishimoto, Vice Chair

Testimony in Support of House Bill 1525
Relating to Medicaid
Submitted by Beth Giesting, CEO
February 5, 2009, 10:30 a.m. agenda, Room 329

The Hawaii Primary Care Association supports this bill, which would limit State contracts for Medicaid services to nonprofit health plans. We believe that this is sound State policy because:

- As taxpayers we expect our public resources for health, which continue to be inequitably and inadequately available, to be used for the public good, not for shareholder profits. This is especially true for Medicaid where the QUEST program has a cap on enrollment because not enough money is available to cover all the low income people who are eligible. It is also important in both QUEST and QUEST-Ex where providers are routinely asked to sacrifice their profits for the good of serving enrollees in this public program. It cannot sit well with these physicians and hospitals to see the health plan enjoy profits at the same time that they are suffering losses.
- Nonprofit organizations are motivated by mission rather than profit. That means that they are likely to be intrinsically invested in the enterprise as opposed to doing the job only as long as it is profitable. It is certainly the goal of nonprofits to earn a margin on their work but a nonprofit will continue to function when that margin is small as opposed to a for-profit, particular one with shareholders who expect a return on their financial investments. The profit motive has resulted in for-profit health plans coming into an area, sweeping up profits when the going was good, and abandoning the market when business became less profitable. Nonprofits will stick around because of their mission and their ability to survive on a smaller margin.
- All of the nonprofit health plans in Hawaii are based here and provide good jobs to people in Hawaii. They are not supporting an infrastructure in another state or country as a for-profit might be.
- Nonprofits must reinvest their margin in improving or expanding their services or in providing community support to other charities.
- The State has more regulatory and investigatory authority over nonprofits, which would result in few instances of rampant opportunism.
- Nonprofits are restricted from lobbying so there are no questions about contracts awarded due to political contributions.

Thank you for the opportunity to testify in support of this measure.



KOKUA KALIHI VALLEY

Comprehensive Family Services

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To: **The House Committee on Human Services**

The Hon. John Mizuno, Chair

The Hon. Tom Brower, Vice Chair

The House Committee on Health

The Hon. Ryan I. Yamane, Chair

The Hon. Scott Y. Nishimoto, Vice Chair

Testimony in Support of House Bill 1525

Relating to Medicaid

Submitted by David D Derauf MD MPH

Executive Director

Kokua Kalihi Valley

February 5, 2009, 10:30 a.m. agenda, Room 329

Kokua Kalihi Valley supports this bill, which would limit State contracts for Medicaid services to nonprofit health plans. We believe that this is sound State policy because:

- Hawaii has a long history of being a leader in the United States in Health Care. Non-profit Health Insurance Companies, including HMSA and Kaiser, and more recently AlohaCare have played a central part of that leadership, and have up until the present been an important factor in our State's success. The reasons why this is so are many, but central to them all is the belief that we are all in this together, and that the resources we are given we share and give back to our communities.
- All of the nonprofit health plans in Hawaii are locally operated and they provide good jobs to thousands of people in Hawaii.
- For Profit health insurers spend enormous sums on executive compensation. As an example, the CEO of United Health Care earned \$124.8 million in 2005. Is this where we want our health dollars going?
- Nonprofits are accountable to their members and to their communities. Despite rhetoric to the contrary, this is not what drives for-profit health insurance companies. Instead they are accountable to their shareholders.

Thank you for the opportunity to testify in support of this measure.



February 4, 2009

Representative John Mizuno, Chair
House Committee on Human Services
Hawaii State Capitol, Room 315
415 South Beretania Street
Honolulu, HI 96813

Representative Ryan Yamane, Chair
House Committee on Health
Hawaii State Capitol, Room 315
415 South Beretania Street
Honolulu, HI 96813

Regarding: HB 1525- Requires the Department of Human Services to Award Medicaid Contracts to Non-Profit Insurance Entities only.

Chair Mizuno and Chair Yamane and members of the House Committee on Human Services and House Committee on Health:

Thank you for the opportunity to provide testimony and comment with regard to HB 1525. I am Dave Heywood, United Healthcare's Executive Director for Hawaii. United Healthcare Insurance Company has been a licensed insurer, providing health care benefits to the people of Hawaii for many years. Evercare, by United Healthcare, serves the frail, disabled and aged and those with chronic conditions across the country through contracts with the Centers for Medicare and Medicaid Services (CMS) and State Medicaid agencies. Evercare is one of two health plans selected by the Department of Human Services (DHS) through a competitive procurement process to provide services to Hawaii's aged, blind and disabled population under the State's new QUEST Expanded Access (QExA) Program.

Evercare has a very strong local team who understands Hawaii's health care system and its Medicaid and Medicare population. The members of my staff, including myself, have many years of experience working for local health plans and health care providers here in Hawaii. We have partnered with MDX Hawaii (formerly Queen's Health Plans), to serve our Medicaid and Medicare members. For the QExA program, Evercare with MDX has hired over 100 new employees on Oahu, Maui, Kauai and the Big Island.

Evercare is opposed to HB 1525 which would require DHS to solicit proposals from and award Medicaid contracts only to non-profit insurance entities. We do not support HB 1525 for the following reasons:

Open Competition Best Serves Consumers, Government, Taxpayers and the Community

Open competition in healthcare insurance programs improves access, quality, innovation and value. This is true not only for Medicaid programs, but also for Medicare, employer group coverage and individual plans. Restricting competition to only non-profit entities prevents fully qualified and capable entities from competing for contracts, even though they may be able to provide better quality and value to the State and to the community.

Moreover, there is no evidence that correlates tax status with quality. For example, only one non-profit insurance entity submitted a proposal in response to DHS's recent Request for Proposals for the Quest Expanded Access (QExA) program for aged, blind and disabled beneficiaries and this proposal from a non-profit insurance entity was deemed to be deficient. The two largest non-profit health plans in Hawaii did not even submit proposals. Therefore, if passed, HB 1525 could have the unintended consequence of actually lowering quality, reducing choice, and increasing costs to the State for the Medicaid program.

State Already Has a Mechanism in Place to Protect Consumers and Providers

Second, HB 1525 is unnecessary to protect the state from unethical or criminal contractors. The state already has in place proper contract award processes and procedures that would eliminate any offerors who have engaged in misconduct, regardless of for-profit or not-for-profit status. The QExA request for proposal required a very comprehensive response from the applicants, including 14 separate categories of technical requirements. It was a rigorous process, and the best proposals by responsible offerors emerged.

In addition, Medicaid health plans are highly regulated by the State of Hawaii and the Federal Government to ensure health plan responsibility and performance. DHS has a comprehensive regulatory and quality oversight framework in place to monitor and report on Medicaid health plan performance, program outcomes and adherence to DHS contract requirements as well as federal Medicaid requirements. It is also important to note that through Medicaid's a federal and state partnership, the Centers for Medicare and Medicaid Services (CMS) offers another layer of quality oversight for QUEST and QExA Medicaid managed care programs in Hawaii.

Continuity of Care for Consumers

Third, HB 1525 has the potential to disrupt services and continuity of care for Medicaid consumers served by for-profit providers in the state as well as for-profit insurance entities Quest Expanded Access and QUEST health plans today. Under HB 1525, current for-profit Medicaid providers, vendors and health plans would be prohibited from participating in any new Medicaid procurements and re-procurements for current contracts. We maintain that if the current QUEST and QExA plans perform well and meet DHS's procurement requirements, consumers should be afforded this option to maintain continuity of care. HB 1525 eliminates this option for consumers.

In summary, for-profit health plans have accomplished well documented positive outcomes in managed Medicaid and long term care programs in many other States. If plans perform well relative to outcomes important to purchasers and consumers, these outcomes, not tax status, should be the criteria the State employs to select health plans to serve the Medicaid population.

It is for these reasons we are opposed to HB 1525. Thank you for hearing our testimony.

Sincerely,

David Heywood
Executive Director, Evercare Hawaii
david_w_heywood@uhc.com

**COMMUNITY
CLINIC
OF MAUI**



Where Aloha is more than just a word

The House Committee on Human Services

The Hon. John Mizuno, Chair
The Hon. Tom Brower, Vice Chair

The House Committee on Health

The Hon. Ryan I. Yamane, Chair
The Hon. Scott Y. Nishimoto, Vice Chair

**Testimony in Support of House Bill 1525
Relating to Medicaid**

**Submitted by Dana Alonzo-Howeth, Executive Director
February 5, 2009, 10:30 a.m. agenda, Room 329**

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Lahaina Comprehensive
Health Center

15 Ipu Amakua Lane
Lahaina, HI 96761

The Community Clinic of Maui strongly supports this bill, which would limit State contracts for Medicaid services to nonprofit health plans. Given the current economic downturn, more and more citizens are relying on the health care safety net and we must ensure that everything possible is being done to secure and strengthen it. This bill does that by focusing on nonprofit health plans who not only have the experience in caring for our most vulnerable and fragile populations but who also have a strong commitment to putting quality of care and customer service to both members and providers first. There are a number of non-profit health plans across the nation who have demonstrated tremendous success in servicing their State's Medicaid & Medicare contracts, showing improved quality of care outcomes, innovative solutions to care, savings, partnerships and dollars reinvested in communities. In Hawaii we have AlohaCare who has a proven track record of all of the above. It goes without saying that proven models such as these make not only economic sense but what is truly in the best interest of our citizen's lives and goes a long way in contributing to the strength of the health care safety net now and in the future. Thank you for this opportunity to testify on this critical bill.



Committee on Human Services and Committee on Health
Testimony in Support of HB 1525: Relating to Medicaid
Submitted By: Richard Bettini, Chief Executive Officer
Contact: wcchc@wcchc.com or 697-3457

We urgently request approval of HB 1525.

While market forces and business incentives appropriately drive our economy, they simply do not work when structuring health care for lower income communities or patients.

We do not take issue that Hawaii should be attracting new for-profit businesses to our State. For-profits operating under normal market conditions help with capital formation and cost reduction through increased competition. Unfortunately, these market forces do not apply to Medicaid Managed Care. Capital formation is not an issue in Medicaid Managed Care as the capital outlay comes from State and Federal governments. The main capital outlay for managed care agencies is data systems primarily limited to claims processing and database functions. Health information and claims processing systems are, for the most part, scaleable and well within the reach of a non-profit managed care contract budget.

In evaluating the relative benefit of using for-profit health plans, one must also consider potential cost containment opportunities and any increased utility these companies provide the health care delivery system. In both cases the characteristics of the patient populations served are important factors.

Plans typically contain costs by purchasing sub-contracted services prudently, controlling referrals between medical providers, monitoring over utilization of hospital, emergency, and specialty services, establishing and managing a drug formulary and establishing aligned incentives throughout the system to improve productivity and performance. Non-profits are equally capable of performing such functions. For-profit plans have also been known to use other tactics to reduce their "medical loss". This includes delaying the payment of claims, narrowly interpreting the scope of services they are contracted to provide, more restrictively authorizing needed referrals and procedures and parking a lot of cash in reserve accounts. States often lose potential utility as any margins are seldom reinvested back into the community.

In most populations, market forces would preclude some of these abuses referenced above. Informed purchasers, concerned about the impact on their household budgets, are motivated to choose a health plan that returns the best experience. Medicaid patients, however, are concerned who their doctor is, not who the plan is. In fact, our experience in Waianae, with 12,000 Medicaid patients, is that patients care less which plan they are assigned to. They want a health care delivery system that is accessible and comprehensive (integrated behavioral health and helping services) and available at a single point of contact, and a doctor that is culturally sensitive and caring. In the emerging medical home model, it is essential that a payer or financial intermediary work cooperatively with medical homes to share performance data and the

management function. For Medicaid patients, such cooperation is best housed in a Non-Profit corporation.

Finally, the abuses that can occur from utilizing for-profit health plans is now represented here in Hawaii in the Department of Human Services QUEST Expanded Access program.

The local non-profit health plan that returns all its margins back to low income communities (\$16 million in the last three years), and has consistently underbid other plans (saving the State millions of dollars), had its bid for QUEST Expanded Access returned unopened due to a politically motivated bid process. **In short, non-profit plans do not make political contributions like the millions of dollars in contributions made by United Health and Wellcare – Hawaii's new QUEST Expanded Access health plans.**

Do not allow another QUEST Expanded Access program to happen in Hawaii - ever again.

Mahalo.

Faith Action for



Community Equity

Gamaliel Foundation Affiliate

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Dr. Kathy Jaycox
Oahu Secretary

Ms. Emily Militoni
Oahu Assistant Secretary

Mr. Rosario Baniaga
Oahu Treasurer

Mr. Drew Astolfi
Executive Director

February 4, 2009

COMMITTEE ON HUMAN SERVICES

Rep. John M. Mizuno, Chair

COMMITTEE ON HEALTH

Rep. Ryan I. Yamane, Chair

DATE: Thursday, February 5, 2009

TIME: 10:30 am

PLACE: Conference Room 329

RELATING TO MEDICAID

HB 1525

Chairs Mizuno and Yamane and members of these committees. Thank you

I am Rev. Sam Domingo. I am the Chair of the FACE (Faith Action for Community Equity) Healthcare Committee. Our committee supports this measure.

Our State has a history of providing care and other human services through the non-profit model. This has worked well in Hawaii as an isolated, self-contained island state for decades. The benefits of our non-profit networks are numerous. Some of them are:

- Non-profits continue to operate when profits dwindle because they are dedicated to their mission rather than profit and they can survive on smaller margins. This provides important stability for Hawaii's Medicaid population, which is comprised of some of Hawaii's most medically fragile and vulnerable.
- Non-profits put their proceeds back into the Hawaii community for improving or expanding healthcare services or supporting charities. This is an important benefit given Hawaii's shrinking budget due to our economic crisis.
- Healthy competition exists amongst Hawaii's non-profit health plans, insuring that taxpayers are getting the most benefit for their taxpayer dollars.
- By contracting with non-profits, government insures that tax supported healthcare resources will be used for public purposes rather than shareholder profits.
- All of Hawaii's non-profit health plans provide good jobs to Hawaii residents and are an important part of Hawaii's economy. They are not underwriting infrastructure in another state or a foreign country as a for-profit might.
- The State of Hawaii has more regulatory and investigatory authority over nonprofits, which helps to control the opportunity for abuse.
- Non-profits are restricted from lobbying so there are no questions about contracts awarded based on political contributions.

In contrast, the disadvantages of For-profit Organizations are:

- For-profit companies are interested in a market so long as it produces profits. Hawaii has experienced over and over again, for-profit insurance companies that leave when profits dwindle.
- For-profit companies are obligated to stockholders who expect a return on their investment.
- Hawaii's Medicaid program expects providers to sacrifice profits in order to serve needy Medicaid enrollees. To continue to ask providers to make these sacrifices while the program contracting with for-profit entities that enjoy profits, wears on provider generosity.

We request that you pass this bill so that we may continue to discuss the differences in non-profit and for-profit entities and the social and financial impacts on the people of Hawaii.