

HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

January 23, 2009

The Honorable Rosalyn H. Baker, Chair
The Honorable David Ige, Chair

Senate Committees on Commerce and Consumer Protection and Health

Re: Informational Briefing on Rate Regulation

Dear Chair Baker, Chair Ige and Members of the Committees:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to provide comments on the rate regulation statute.

HMSA understands and shares the concerns of the legislature over increases in health care premiums. Unfortunately increases in health care premiums are intrinsically tied to increases in health care costs. HMSA uses the trends in health care costs to determine rates which are sufficient to keep up with health care cost increases. Historically these costs have been increasing at a rate of 8% annually. HMSA's rates are a reflection of these health care trends. Cost increases directly impact all health care providers and facilities in the state which in turn affect employers who purchase health care coverage for their employees. HMSA is in the difficult role of balancing the needs of these two constituencies.

As a non-profit mutual benefit society, with 71 years of experience setting adequate premium rates to cover the cost of health care, HMSA's financial goal, as always, is to break even. Developing health plan rates is an inexact science and creating rates takes expertise. Being able to set fair and adequate rates is one of our most important business competencies. Health plans go out of business if they are not able to set appropriate rates.

To illustrate how health care cost trends affect HMSA and why premium rates increase, we have attached a spreadsheet and graph to demonstrate the impact on HMSA if premium rates were not increased. In demonstrating this, HMSA made some assumptions including:

- 0% increase in health care premiums
- A health care trend of 8%
- No adjustment to administrative overhead
- Annual investment return of 7%

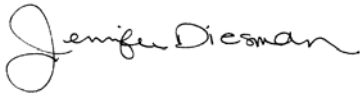
Under this scenario, with the amount of member dues remaining constant and health care costs continuing to rise, the net loss to HMSA's reserve amount would be compounded annually. HMSA would end up utilizing more of its reserve to subsidize these losses, which would in turn decrease the amount of investment return on

the reserve itself. By the end of 2009, including a zero premium increase, HMSA's net operating loss would be greater than \$203 million and before the end of 2010 HMSA would no longer maintain enough capital to remain a viable health plan in the state. This example was created to graphically illustrate the necessity of premium rate increases to match trends in health care costs.

Helping to contain these rising costs continues to be a priority at HMSA through initiatives such as disease management programs, reminders to members to receive screenings and vaccinations, smoking cessation programs, subsidized rates to join Weight Watchers and HMSA's Online Care program. HMSA will continue its efforts to contain costs through these and other programs.

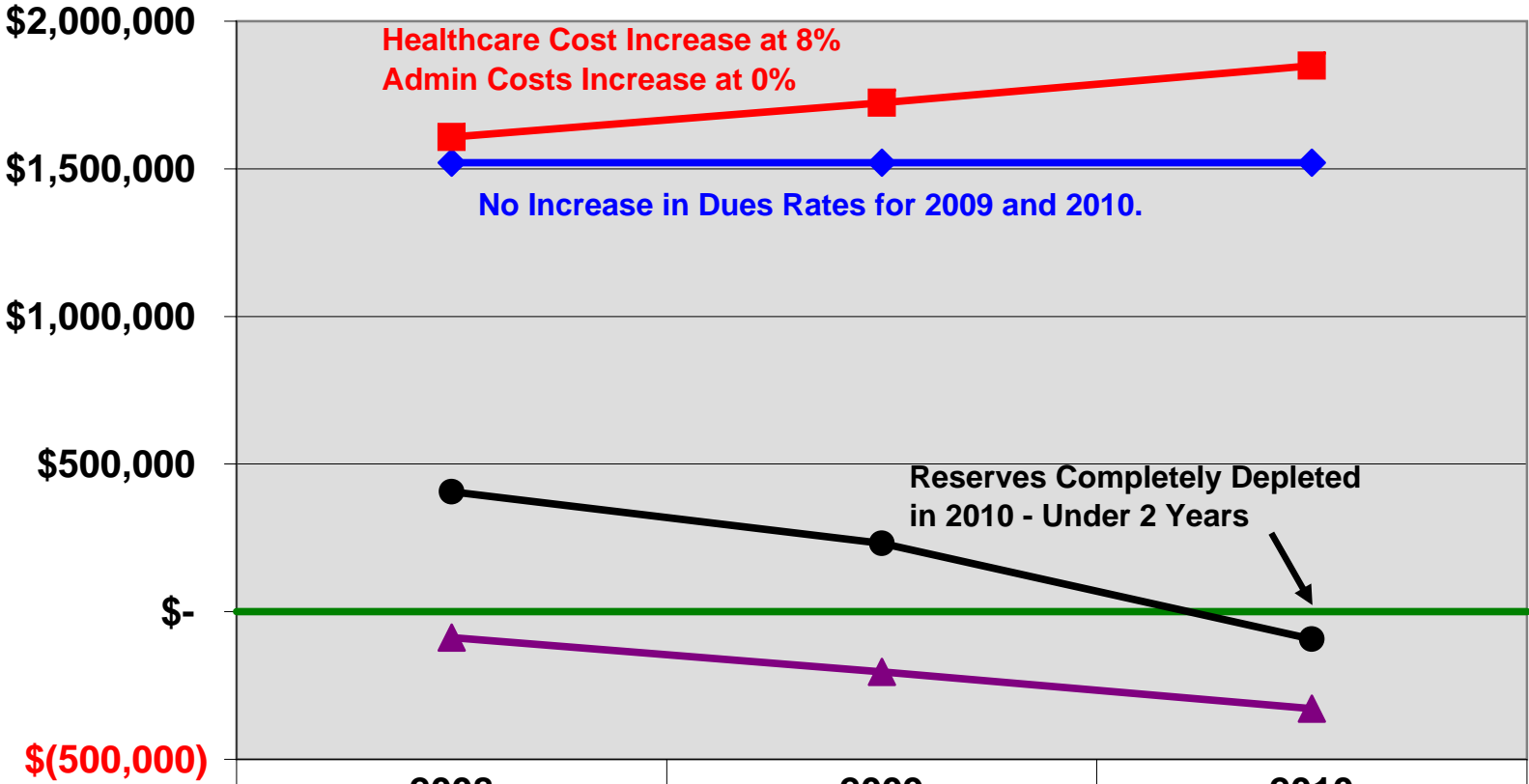
I hope that this information is useful as you examine how the rate regulation statute is currently functioning. Thank you for the opportunity to participate in the informational briefing today.

Sincerely,



Jennifer Diesman
Assistant Vice President
Government Relations

**HMSA HYPOTHETICAL FINANCIAL PROFORMA
No Dues Rate Increase - 2009 and 2010**



	2008	2009	2010
◆ Member Dues	\$1,520,498	\$1,520,498	\$1,520,498
■ Benefit & Admin Costs	\$1,608,083	\$1,724,030	\$1,849,252
▲ Net Operating (Loss)	\$(87,585)	\$(203,532)	\$(328,755)
● Ending Reserves	\$405,755	\$231,173	\$(92,736)

HAWAII MEDICAL SERVICE ASSOCIATION
NO PREMIUM INCREASE SCENARIO 2009 - 2010
PROFORMA OPERATING RESULTS STATUTORY ACCOUNTING PRINCIPLES (In Thousands)

Item	Description	Actual 2008	Hypothetical Projection	
			2009	2010
1	Member Dues	\$ 1,520,498	\$ 1,520,498	\$ 1,520,498
2	Healthcare Service Costs	1,449,337	1,565,284	1,690,507
3	Operating Expenses	158,745	158,745	158,745
4	Net Operating (Loss)	\$ (87,585)	\$ (203,532)	\$ (328,755)
5	Investment & Other Income	49,621	22,518	4,845
6	Income Tax Benefit	1,395	-	-
7	Net (Loss)	\$ (36,568)	\$ (181,014)	\$ (323,909)
8	Beginning Reserve	\$ 569,097	\$ 405,755	\$ 231,173
9	Net (Loss)	\$ (36,568)	(181,014)	(323,909)
10	Ending Reserve	\$ 405,755	\$ 231,173	\$ (92,736)
11	Reserves as Pct of Annual Cost	25.2%	13.4%	(5.0%)
12	<u>Assumptions</u>			
13	Annual Premium Increases		0.0%	0.0%
14	Historical Annual Healthcare Cost Trends		8.0%	8.0%
15	Annual Administrative Cost Trends		0.0%	0.0%
16	Investment Return on Reserves		7.0%	7.0%