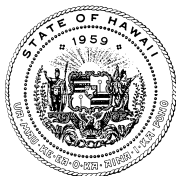


TESTIMONY

SB 2885



**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

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February 9, 2010

To: The Honorable Dwight Takamine, Chair
and Members of the Senate Committee on Labor

The Honorable David Ige, Chair
and Members on the Senate Committee on Health

Date: Tuesday, February 9, 2010
Time: 2:45p.m.
Place: Conference Room 224, State Capitol

From: Darwin L.D. Ching, Director
Department of Labor and Industrial Relations

Testimony for

S.B. 2885 – Relating to Health Savings Accounts

I. OVERVIEW OF CURRENT PROPOSED LEGISLATION

S.B. 2885 proposes to establish a task force to evaluate the current state of health savings accounts options in Hawaii's health insurance market and to explore ways to expand access to these accounts in Hawaii.

The task force is to:

- Study the health savings accounts options in Hawaii;
- Establish a plan to encourage and expand the use of health savings accounts;
- Propose potential amendments to the Prepaid Health Care Act to effect the expansion of health savings accounts in Hawaii;
- Identify and recruit health plans that may help expand the availability of health savings accounts; and
- Assess the potential economic impact of expanding health savings accounts options in Hawaii.

II. CURRENT LAW

The Prepaid Health Care Act requires all prepaid health care plans offered by Hawaii employers to their employees to be reviewed by the Prepaid Health Care Advisory Council and approved by the Director of the Department of Labor and Industrial Relations.

In 1983, Congress amended the Employee Retirement Income Security Act of 1974 (ERISA) by exempting the Prepaid Health Care Act from preemption by ERISA. The amendment also allowed the Act to exist in its original form as enacted in 1974, and in effect prevented any substantive changes to be made to the Act.

III. SENATE BILL

The Department takes no position on this bill, but offers the following comments.

One of the four task force members from the Prepaid Health Care Advisory Council should be the chairman of the council. This will ensure council leadership is represented on the task force.

A benefits consultant should be added to the task force as a resource on laws and trends that affect health care benefits.



LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

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LAWRENCE M. REIFURTH
DIRECTOR

RONALD BOYER
DEPUTY DIRECTOR

TO THE SENATE COMMITTEES ON LABOR and COMMITTEE ON HEALTH

TWENTY-FIFTH LEGISLATURE
Regular Session of 2010

Tuesday, February 9, 2010
2:45 p.m.

TESTIMONY ON SENATE BILL NO. 2885 – RELATING TO HEALTH SAVINGS ACCOUNTS.

TO THE HONORABLE DWIGHT Y. TAKAMINE AND DAVID Y. IGE, CHAIRS, AND MEMBERS OF THE COMMITTEES:

My name is J.P. Schmidt, State Insurance Commissioner testifying on behalf of the Department of Commerce and Consumer Affairs (“Department”). The Department supports this bill which establishes a task force to evaluate the current state of health savings accounts options in Hawaii’s health insurance market and to explore ways to expand access to these accounts in Hawaii.

Health savings accounts are a good idea because a high deductible policy can reduce premium costs and encourage the policyholder to use healthcare services more efficiently. The Department was an early supporter of health savings accounts at the beginning of the Lingle Administration, but we were told that the Prepaid Health Care Act’s requirement for health plans to follow the prevalent plan was part of the impediment to using a high deductible product for group plans which constitute all but a fraction of the fully insured market. If this is true the work of the proposed task force may turn out to be unproductive. Some initial investigation along these lines therefore may be warranted before this bill is passed.

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



HAWAII MEDICAL ASSOCIATION

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Tuesday, February 9, 2010, 2:45 P.M., Conference Room 224

To: COMMITTEE ON LABOR
 Senator Dwight Y. Takamine, Chair
 Senator Brian T. Taniguchi, Vice Chair

COMMITTEE ON HEALTH
 Senator David Y. Ige, Chair
 Senator Josh Green, M.D., Vice Chair

From: Hawaii Medical Association

Gary A. Okamoto, MD, Legislative Co-Chair
 Linda Rasmussen, MD, Legislative Co-Chair
 April Donahue, Executive Director
 Lauren Zirbel, Government Affairs
 Dick Botti, Government Affairs

Re: SB2885 RELATING TO HEALTH SAVINGS ACCOUNTS

In Support

Chairs & Committee Members:

Hawaii Medical Association believes that Health Savings Accounts (HSAs) are a health plan option that may be attractive and beneficial to many individuals in Hawaii and thus would support the formation of a taskforce to explore the ways in which HSAs can be expanded as a health insurance option for the citizens of Hawaii.

HSAs are another way to pay for healthcare costs. Instead of relying on health insurance coverage alone, an individual buys a high-deductible insurance policy to cover major healthcare needs, and then sets aside money each year in a tax-free personal account, the HSA, to pay for smaller health expenditures.

Account balances can be used for a wide variety of medical expenses, and money not used one year can be carried over to the next, as well as from job to job. Like an individual retirement account, or IRA, at retirement the funds can be used for any purpose.

The January 2009 Census shows that 8 million people are covered by HSA/High-Deductible Health Plans. This taskforce will provide a venue for healthcare and business leaders to come together to discuss ways in which HSAs can make up a more meaningful part of healthcare coverage in Hawaii.

Under the Hawaii Prepaid Health Care Law, all health insurance plans offered by Hawaii employers must be approved as a qualified plan by the state government's Hawaii Prepaid Health Care Council. Issues with the Hawaii Prepaid Health Care Act need to be addressed in order to explore the place HSAs can take in Hawaii's Health Insurance market.

(cont. next page)

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President - Robert Mervit, MD President-Elect - Morris Mitsunaga, MD Secretary - Thomas Kosasa, MD
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Page 2

HSA's are currently an Employer-Union Health Benefits Trust Fund option, as well as an option for sole proprietors, self-employed individuals, and those working as part-time employees. EUTF's HSA/HDHP option is offered by Hawaii Medical Service Association, which has partnered with Sterling HSA to administer accounts (funds are held at First Hawaiian Bank). HMSA has also partnered with BlueHealthCare Bank to administer accounts. HMSA also has a HSA qualifying Catastrophic Care Plan for individuals which covers some screenings and exams before the \$2,500 deductible is met.

The potential for savings can be seen by this example. Providing healthcare to an individual employee is about \$3,204 for an HMSA HMO plan, \$648 of which the employee would typically pay and \$2,556 of which the employer would typically be pay. In contrast, the annual premium for a single HDHP (\$2,500 deductible) offered through HMSA is about \$1,107. The \$2,097 annual savings in premiums per individual employee could potentially be placed in a tax exempt HSA for an employee. If the employee does not use all of these funds they will roll over to the next year and accrue interest.

As outlined in an article published by Newsweek Magazine's January 4, 2010 issue, Indiana Gov. Mitch Daniels insured 50,000 low-income residents through a budget-neutral combination of health savings accounts and catastrophic coverage. Former U.S. Health and Human Services Secretary Mike Leavitt praised the legislation, saying, "There is no other program out there as innovative as what I'm seeing here in Indiana."

The rapidly rising cost of health care is crippling businesses, forcing layoffs and reductions in pay. It is important that businesses and healthcare consumers have access to all health plan options in order to bring down cost and increase quality of care. Allowing consumers the option to enroll in a Health Savings Account is one step that can be taken to bring down the cost of health care, encourage healthier lifestyles, allow for more patient and physician control of health care decisions and save money for employers and employees alike.

Thank you for the opportunity to testify.

HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

February 9, 2010

The Honorable David Ige, Chair
The Honorable Dwight Takamine, Chair
Senate Committees on Health and Labor

Re: SB 2885 – Relating to Health Savings Accounts

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

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on SB 2885 which would create a task force to examine the current state of Health Savings Accounts (HSAs) in Hawaii and determine ways to expand their use.

HMSA supports the effort outlined in SB 2885 to research the possibilities HSAs could offer to those seeking coverage in Hawaii. We believe that it is worth examining how HSAs could play an expanded role in our health care system. HMSA currently administers an HSA qualified plan limited to individuals but it has not generated as much interest as originally conceived. We welcome the opportunity to participate in a task force and look forward to working together with other stakeholders on this issue.

Thank you for the opportunity to testify today.

Sincerely,

A handwritten signature in black ink, appearing to read "JD", with a long horizontal stroke extending to the right.

Jennifer Diesman
Vice President
Government Relations

To the Senate Committee on Health
Twenty-Fifth Legislature
Regular Session of 2010

For: Tuesday, February 9, 2010, 2:45 pm

Dear Chairman Ige and fellow committee members:

My name is Cora M. Tellez, founder and president of Sterling HSA, and I am writing in support of SB2885 which will establish a task force to evaluate the state of health savings accounts (HSA) options in Hawaii.

My company has been in the business of administering health savings accounts since the law creating HSAs was made effective in 2004. We are honored and privileged to provide HSA services to members of the Employer-Union Health Benefits Trust Fund (EUTF) in partnership with HMSA and First Hawaiian Bank where HSA deposits for EUTF members are held. We are a national firm with a reputation for deep domain expertise in health insurance and HSAs. I give speeches nationally and contribute articles to industry publications on the state of HSA utilization and trends in consumer adoption.

Our experience in administering health savings accounts has shown that consumers take a deep interest in their health, particularly when there are financial incentives for them to consume health resources thoughtfully. Our work with over 3,000 employer clients, including schools and municipal governments and collectively bargained groups tell us that the pace of employer-provided medical insurance cost is moderated after switching to an HSA-compatible plan. For example, employers experience the steepest decline in drug cost as their employees willingly switch to generic over brand drugs. We are not alone in seeing this trend. National insurance firms, from the Blue Cross Blue Shield Association to Cigna and Aetna insurance companies report stronger cost awareness on the part of consumers and increased utilization of wellness and preventive programs.

Like other states, Hawaii is confronted with the worst recession in modern times. Health care costs are a significant burden that can impede our economic recovery. While not a silver bullet, HSAs offer a powerful tool to constrain health care cost and provide consumers with a financial incentive to maintain healthy behaviors. I strongly believe that Hawaii employers can benefit greatly from having HSAs as an option. EUTF can encourage more rapid adoption of HSAs by adopting well-known employer best practices, including allowing pre-tax contribution to employee's HSA accounts, enabling modest employer contribution to HSAs funded through the savings in premium, and executing a well-defined communications plan to raise awareness among EUTF members.

The proposed task force under your consideration is an important first step, and I heartily encourage you to approve its creation. Thank you very much for the opportunity to present these comments.

Sincerely,
Cora M. Tellez

Cora M. Tellez
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