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TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

TWENTY-SEVENTH LEGISLATURE
Regular Session of 2014

Monday, February 10, 2014
5:00 p.m.

**TESTIMONY ON HOUSE BILL NO. 2525, H.D. 1 – RELATING TO HEALTH
INSURANCE RATES.**

TO THE HONORABLE ANGUS L.K. MCKELVEY, CHAIR, AND MEMBERS OF THE
COMMITTEE:

My name is Gordon Ito, State Insurance Commissioner, testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). The Department supports part 1 of this bill and opposes part 2 of this bill, and submits the following comments.

Part 1 of this bill creates a state innovation waiver task force. This is advisable to lay the groundwork for a request for a waiver from provisions of the Affordable Care Act. Hawaii has long been at the forefront of the nation in healthcare and health insurance and a waiver may be in the best interests of the public.

Part 2 of this bill requires pure community rating for health insurance for individuals and small employer groups, and supplants the federal default 3:1 age rating that took effect on January 1, 2014, under the ACA.

The initial impression is community rating appears to be fair because everyone pays the same rate. However, its unfairness is reflected in the relatively higher rate

paid by young people who tend to be healthier, and the relatively lower rate paid by older people who tend to be sicker, which some might consider as age discrimination. Further, health insurers have typically set the community rate based on loss experience. Mandating a pure community rated system will mean that younger individuals and small employer groups will pay higher rates than under the ACA 3:1 age rating. The result will still reflect the unavoidable situation of certain group seeing large increases and other seeing large decreases, referred to as “rate shock”. Implementing pure community rating will not avoid rate shock.

The Department strongly advises against using pure community rating for individual (non-group) policies because it will create a powerful disincentive for young people to sign up for health insurance that commands disproportionately higher rates. If healthy people avoid the system even as sick people jump into the system, a phenomenon known as “adverse selection” will occur. If adverse selection takes hold in Hawaii, it undoubtedly will drive up rates even higher. With respect to small employers, the pure community rate will tend to cost employers more to insure a younger workforce rather than an older workforce. It will tend to cause higher premiums for younger workers and families with children, disadvantaging startup companies that tend to employ younger workers. If we want to encourage the creation of new businesses to bolster our economy, then pure community rating is a bad idea.

The Department is considering other options to mitigate the “rate shock” on our individuals and small businesses, including studying if the rate impact will be minimize with the creation of a Hawaii specific age curve or seeking from Department of Health and Human Services an exemption.

We thank this Committee for the opportunity to present testimony on this matter.



LATE

**Comments to the Committee on Consumer Protection & Commerce
Monday, February 10, 2014
5:00PM**

Conference Room 325

RE: HOUSE BILL 2525 (HD1) RELATING TO HEALTH INSURANCE RATES

Chair McKelvey, Vice Chair Kawakami, and Members of the Committee:

ProService Hawaii provides employee administration services to over 1,100 small businesses in Hawaii, representing over 17,000 employees in Hawaii. As a professional employer organization (PEO), we ensure that our clients remain compliant with Federal and State employment and labor laws, while allowing them to focus on their core business, providing needed and valuable services to the people and the economy of the State. In addition, we ensure that our clients' employees receive timely payment of wages, workers' compensation, TDI and benefits coverage. We also provide HR training and services, dispute resolution, and safety services to our clients and our clients' employees.

ProService Hawaii is concerned about any legislation that will unfairly negatively impact any demographic group. The ACA age-banding methodology has not fully been launched for small groups. Given that the Obama Administration has rolled back implementation of the age-banding and groups are allowed to renew on the 2013 traditional community rating methodology, the State of Hawaii should allow and see the affect of age-banding before finalizing any legislation.

As a trusted advisor to over 1,100 small businesses, we provide a unique perspective of their challenges of successfully operating a business in Hawaii. Accordingly, we look forward to working with your committee and the legislature in finding solutions to implementing health care reform that are advantageous for the people of Hawaii.

Thank you for the opportunity to submit comments.

HMSA

LATE



An Independent Licensee of the Blue Cross and Blue Shield Association

February 10, 2014

The Honorable Angus L. K. McKelvey, Chair
The Honorable Derek S. K. Kawakami, Vice Chair
House Committee on Health

Re: HB 2525, HD1 – Relating to Health.

Dear Chair McKelvey, Vice Chair Kawakami and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on HB 2525, HD1, which establishes a State Innovation Waiver Task Force and requires health care premium rates for individual and small groups plans based upon pure community rating. HMSA supports this Bill.

HMSA is supportive of a pure community rating model for health insurance rate setting because it is the fairest for the people of Hawaii. While community rating may result in a higher premium during one's earlier years, that is counterbalanced with lower premiums as he/she ages. Since our families overwhelmingly tend to remain here in the islands throughout their lives, there is more equity in a community rated system here in Hawaii than would be evident in another state where the population is more transient.

Thank you for the opportunity to testify on HB 2525, HD1.

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