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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. 2527, H.D. 1 – RELATING TO HEALTH INSURER
ASSESSMENTS.**

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 opposes this bill, and submits the following comments.

Although the Department recognizes the need for financing for the Hawaii Health Connector, we do not believe that the insurance commissioner should be responsible for the assessment of a fee on health insurers. The insurance commissioner is responsible for regulating the premium rates of health insurers and imposing an assessment for the Connector that impacts these rates creates a conflict of interest. We believe that a fee of this type should be administered by the Department of Taxation.

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



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Consumer Protection and Commerce
Monday, February 10, 2014 at 5:00 P.M.
State Capitol - Conference Room 325**

RE: HOUSE BILL 2527, HD1 RELATING TO HEALTH INSURERS ASSESSMENTS

Chair McKelvey and Vice Chair Kawakami, and members of the committee:

The Chamber of Commerce of Hawaii ("The Chamber") **expresses concerns** regarding HB 2527 Relating to Health Insurers Assessments.

The Chamber is the largest business organization in Hawaii, representing over 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Our understating is that at the current year, the Hawaii Health Connector presently costs about \$7 million a year to operate. While we understand that per federal law the Connector has to be sustainable, we would suggest that the legislature look into the operational costs of the connector while moving this bill for continued discussion.

Thank you for the opportunity to testify.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Hawaii health connector universal federally mandated sustainability fee

BILL NUMBER: HB 2527, HD-1

INTRODUCED BY: House Committee on Health

BRIEF SUMMARY: Adds a new section to HRS chapter 435H to providing that beginning on July 1, 2015, and each July 1 thereafter, the insurance commissioner shall assess a Hawaii health connector universal federally mandated sustainability fee upon each insurer, on a pro rata basis, based upon the number of individuals covered by each insurer on the preceding December 31, excluding individuals covered under Medicaid. The fee may be assessed on each dental insurer at a level up to ____% of the fee assessed on all other insurers. The total of all revenues collected from the fee shall not exceed the amount of funding required to finance the operations and cash reserve of the Hawaii health connector.

Establishes a special subaccount within the compliance resolution fund to be designated as the Hawaii health connector sustainability special subaccount into which all moneys from the connector sustainability fee shall be deposited. Moneys from the subaccount shall only be used to support the administration, operations, and prudent cash management of the Hawaii health connector.

By April 1 of each year, the board of directors of the connector shall inform the insurance commissioner of the amount of funding required to finance the operations and cash reserve of the connector for each ensuing fiscal year beginning on July 1; provided that the balance of the cash reserve does not exceed the value of the cost of three months of administering and operating the connector.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: The Patient Protection and Affordable Care Act mandates health insurance exchanges to be self-sustaining beginning in January 2015. The Hawaii health connector authorized a 2% rate increase on all health plans sold to individuals through the connector beginning January 1, 2014. The connector further authorized an additional 2% rate increase on all plans sold to small businesses through the connector beginning July 1, 2014. However, it appears that the additional connector fee applies only to insurers that sell products through the connector. The federal act requires those insurers to price their products sold outside of the connector at the same level as the products sold through the connector. As a result, insurers that only sell plans outside of the connector do not bear the burden of having the prices of their products increased by the connector fee. While it appears that this measure would authorize the insurance commissioner to assess a fee on **all** insurers selling plans, both inside and outside of the health insurance exchange, it would appear that the added fee would add to the cost of products sold by all insurers whether they are inside or outside of the health insurance exchange. If the intent is to equalize the cost of such products sold by insurers, then the fee should only be imposed on those insurers selling plans outside of the exchange.

In addition, it should be noted that the amount of the fee, as proposed in this measure, will fluctuate depending on the number of individuals covered by each insurer in the prior year; provided the amount of the revenues collected from the fee does not exceed the amount required to finance operations and cash reserves of the connector. While it appears that the Hawaii health connector has experienced two rate increases, and another possible rate increase due to the adoption of the measure, these fees will add to the cost of the products sold by insurers, ratcheting up the cost of health care in the state. As an alternative, consideration should be given to appropriating funds to this program area to ensure that it will be adequately funded.

Digested 2/8/14

HMSA



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 2527, HD1 – Relating to Health Insurers Assessments.

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

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on HB 2527, HD1, which authorizes the State Insurance Commissioner to assess a fee on all health insurers to finance the operations and cash reserve of the Hawaii Health Connector. HMSA supports this Bill, but we suggest an amendment.

The Affordable Care Act (ACA) mandates health insurance exchanges to be self-sustaining beginning in January 2015. To address this, the Hawaii Health Connector (Connector) authorized a two percent rate increase on all health plans sold to individuals only through the Connector beginning January 1, 2014, and an additional two percent rate increase on all plans sold to small businesses only through the Connector, beginning July 1, 2014.

While those rates only apply to plans sold through the Connector, the ACA requires us to sell our products outside of the Connector at the same price as we sell them through the Connector. Consequently, those insurers who do not sell products through the Connector are afforded a competitive advantage in the market outside of the Connector. And, there simply is no incentive for issuers to participate in the Connector, resulting in reduced competition in the Connector.

The long-term sustainability plan for the Connector must promote competition, while ensuring equity amongst the competitors. HB 2527, HD1, offers that balanced sustainability model. The State Insurance Commissioner already is tasked with ensuring a competitive health insurance market with reasonable rates for consumers. Allowing the Commissioner to set rates annually to finance the Connector further would ensure Hawaii can maintain a competitive health insurance market with reasonable rates, while sustaining the health insurance exchange market.

While we do support this measure, we ask that the Committee consider amending Section 2 of the Bill to replace the reference to “a medicaid plan pursuant to Title XIX of the Social Security Act, 42 U.S.C. section 1396 et seq” with “a medicare plan pursuant to title XVIII of the Social Security Act.” This amendment would allow an exemption only for medicare plans, since they are not associated with the Connector and the ACA.

Thank you for the opportunity to testify in support of HB 2527, HD1, with our suggested amendment.

Sincerely,

A handwritten signature in black ink, appearing to be 'JD' followed by a long horizontal stroke.

Jennifer Diesman
Vice President
Government Relations



LATE

To: Committee on Consumer Protection & Commerce
Representative Angus L.K. McKelvey, Chair

Date: February 10, 2014, Conference Room 325, 5:00 p.m.

Re: **HB 2527 HD1 – RELATING TO HEALTH INSURERS ASSESSMENTS**

Chair McKelvey and Committee Members:

AARP is a membership organization of people 50 and older with nearly 150,000 members in Hawaii. AARP fights on issues that matter to Hawaii families, including the high cost of long-term care; access to affordable, quality health care for all generations; providing the tools needed to save for retirement; and serving as a reliable information source on issues critical to Americans age 50+.

AARP provides comments on HB 2527 HD1 - Relating to Health Insurers Assessments. This bill establishes a sustainability fee for the Connector.

Prior to the establishment of a sustainability fee, the Connector should be required to provide the Legislature with a 2015 Sustainability Report that provides details on how the Connector operates, what its expenses will be, how it will control those expenses, how it will generate the revenue to offset those costs and how it will increase enrollment. The Connector has received approximately \$205 million in federal taxpayer dollars for the development and implementation of the Connector, and Hawaii residents should not be “left holding the bag” and assessed a fee to “bail-out” the Connector when federal funds are not available, or if the board failed in its fiduciary duty to develop an appropriate sustainability plan.

If a sustainability fee becomes necessary a process must be established that requires a management and financial audit to evaluate the appropriateness of the amount of funds provided to the Connector. Without such audits there is little incentive for the Connector to generate revenues, control expenses or increase enrollment. Without any accountability by the Connector for revenues and expenses it becomes too convenient for the Connector to rely on a sustainability fee for ongoing operations. This fee that is assessed on insurers would be passed on to the consumer by way of higher insurance premiums. The consumer would be the clear loser.

Thank you for the opportunity to provide testimony.