

# HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

**LATE**

January 31, 2014

The Honorable Rosalyn H. Baker, Chair  
The Honorable Brian T. Taniguchi, Vice Chair  
Senate Committee on Commerce and Consumer Protection

**Re: SB 2820 – Relating to Health Insurance**

Dear Chair Baker, Vice Chair Taniguchi and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on SB 2820, which seeks to amend several sections of the State Insurance Code. HMSA opposes Section 9 of this Bill, but supports the remainder of the Bill with comments

**Section 9**

Of particular concern to HMSA is the amendment found in Section 9 of the Bill, which requires the Insurance Division to consider 80 percent of all investment income in the rate determination of a health plan. We believe it is unnecessary and will detract from the real issue of rising health care costs.

HMSA understands and shares the concerns over increases in health care premiums, which 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 eight percent annually. Our 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. Health plans are in the difficult role of balancing the needs of these two constituencies.

HMSA is a non-profit mutual benefit society with 75 years of experience setting adequate premium rates to cover the cost of health care for our members. Our responsibility is to set rates that cover the cost of our members' health benefits. But, we must ensure we have the financial capacity to pay for our members' needs - when they need them. Consequently, HMSA's goal is to have at least a three-month's financial reserve available to protect members and the community against unexpected increase in health care costs due to events such as a flu outbreak. That goal has been difficult to achieve given the ever escalating cost of health care. Between 2008 and 2012, the years for which audited information is available, our reserve dropped from 3.05 months to 2.19 months. That represents a drop from \$732 to \$645 per member, which is less than the cost of an average emergency room visit and a fraction of the cost of an average hospital day. (Attachment A)

Despite the rising cost of health care, HMSA has been able to exceed national standards of ensuring premium revenue go to paying for members' health care needs and not for overhead costs. The Affordable Care Act requires 80 percent of individual member and small business plan dues and 85 percent of large employer dues go to paying for member benefits. If those standards are not met, the plan must issue rebates to its members. HMSA far exceeded those standards. On average, we spend only seven to eight percent for administrative costs – one of the lowest in the nation – with more than 92 percent going to pay for medical services for our members and their families.

While we take pride in achieving those numbers, the struggle to contain the rising cost of health care remains a priority of HMSA. We have been working with our providers and others in the health care community to move away from a fee-for-

service model of health care service to a patient-centered medical home model (PCMH) which compensates providers based on quality of care delivered rather than patient volume. To date, approximately 57 percent (635) of our primary care providers are in our PCMH program, serving 71 percent (490,000) of our members.

HMSA recognizes that Hawaii's families and businesses feel the impact of rising health care costs in their premiums. But, additional regulation of rates is not the answer. We are hopeful that dramatic systemic changes in the health care system, through programs such as PCMH and pay-for-quality, will help to contain health care costs and reap benefits for the community.

Should this measure move forward, we would like to work with the Committee to address several other concerns in other sections of the Bill.

- **Sections 1, 2, and 3** - These amendments specify conditions under which a plan may not rescind coverage of a member. We believe non-payment of a premium should be included as a "trigger" for rescission.
- **Section 11** - In adopting the new federal mental health requirements, this amendment prohibits requirements which are more restrictive "than the predominant financial requirements and treatments limitations" in the federal law. This raises the issue of defining "predominant."
- **Section 17** - This amendment repeals most of the State mental health/substance abuse mandate, in lieu of the federal mental health parity law. This substantial change raises questions regarding parity between mental health/substance abuse benefits and medical benefits. Since we are still reviewing the impact of this amendment, with the Committee's indulgence, we ask that we be allowed to provide additional comments in the future.

Thank you for the opportunity to testify on SB 2820, and we hope you will consider the concerns we have raised regarding this legislation.

Sincerely,



Jennifer Diesman  
Vice President  
Government Relations

Attachment

Attachment A

**Hawaii Medical Service Association  
Statutory - End of Year Reporting**

	2008	2009	2010	2011	2012
Reserves (\$ in millions)	\$406.7	\$356.1	\$389.6	\$406.2	\$452.2
Reserves per Member	\$731.97	\$629.29	\$689.17	\$702.16	\$645.02
Months in Reserve	3.05	2.45	2.61	2.39	2.19
Reserves per Annual Costs	25.4%	20.4%	21.8%	19.9%	18.3%
RBC	701%	609%	659%	547%	502%