

Honolulu, Hawaii

FEB 16 2007

RE: S.B. No. 12
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Madam:

Your Committee on Health, to which was referred S.B. No. 12
entitled:

"A BILL FOR AN ACT RELATING TO HEALTH INSURANCE RATE
REGULATION,"

begs leave to report as follows:

The purpose of this measure is to protect Hawaii consumers
against predatory and discriminatory pricing of health insurance
premiums.

The measure accomplishes this purpose by re-establishing the
health insurance rate regulation program by requiring oversight by
the Insurance Commissioner to ensure fair and reasonable health
insurance premiums.

Your Committee received testimony in support of this measure
from the Department of Commerce and Consumer Affairs, Summerlin
Life and Health Insurance Company, Hawaii State Teachers
Association, Retail Merchants of Hawaii, the Kokua Council, and
the Hawaii Coalition for Health. Your Committee received
testimony in opposition to this measure from Hawaii Medical
Service Association and Kaiser Permanente.

Your Committee finds that health insurance premiums continue
to increase, making health insurance progressively more
unaffordable, particularly for individuals and small businesses.
Your Committee further finds that as of June 30, 2006, the
Insurance Commissioner no longer had oversight over health



insurance rules due to the sunset of Act 74, Session Laws of Hawaii 2002. As a result, the health insurance market may lapse into a period of very limited competition, which allows for excessive insurance premiums.

Your Committee further finds that reinstating health insurance rate regulation would encourage more health insurance carriers to enter the Hawaii market and enable them to compete, offering more choices for the residents of Hawaii. Most importantly, it would protect consumers against unfair business practices, such as predatory and discriminatory health insurance premiums.

Your Committee further finds that this measure will enable the Commissioner to be proactive in preventing insurer insolvencies by setting premiums at levels that will completely cover costs of health care, plus a reasonable rate of return, to ensure that insurance carriers will be able to pay claims when they come due.

Your Committee amended this measure by:

- (1) Clarifying that rates shall be reasonable in relation to the costs of the benefits provided;
- (2) Removing the language referencing the Commissioner's discretionary authority to keep filings confidential and adding a requirement that rates shall be open to public inspection upon filing with the Commissioner; provided that supporting and supplementary rating information filed with the Commissioner shall be treated as confidential, proprietary information and shall not be subject to public inspection;
- (3) Including a requirement that rates shall be established in accordance with actuarial principles, based on reasonable assumptions, and supported by adequate supporting and supplementary rating information;
- (4) Deleting the requirement that managed care plans shall provide the Commissioner with the information necessary for the calculation of investment income and accuracy of loss reserves;




- (5) Deleting the language that required all managed care plans to file initial rates within thirty days of the effective date of this measure;
- (6) Deleting the section regarding reserves that required managed care plans to return moneys in excess of fifty per cent of its annual net worth to enrollees or to apply excess to stabilize or reduce rates;
- (7) Deleting the provisions relating to third party administrator services, prepaid dental insurance offered by managed care plans, prepaid vision insurance offered by managed care plans, and disability insurers licensed under chapter 431;
- (8) Including a provision that for managed care plans with rates based totally or in part on the individual group's claims experience, insurers shall submit for Commissioner's approval descriptions of the methodology to be used in creating rates and every modification thereof that it proposes to use and that complete supporting and supplementary rating information for rates shall be maintained and made available to the Commissioner upon request;
- (9) Including provisions for interim rates that require the Commissioner, within ten days of disapproval, to specify interim rates sufficient to protect the interests of the managed care plan and its enrollees, ensure the solvency of the managed care plan, maintain the plan's health care delivery, and prevent any impairment of enrollees' health care benefits; provided that the interim rate shall be no less than the median between the existing rate and the disapproved rate;
- (10) Establishing that, when a new rate becomes legally effective and the new rate is higher than the interim rate, the Commissioner shall allow the managed care plan to exact a surcharge on premiums retroactive to the time when the interim rate was first imposed. If the new rate is lower than the interim rate, the Commissioner may order that the difference be applied to stabilize future rates or be refunded to current enrollees of the managed care plan; and



- (11) Changing the effective date to encourage further discussion.

As affirmed by the record of votes of the members of your Committee on Health that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 12, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 12, S.D. 1, and be referred to the Committee on Commerce, Consumer Protection, and Affordable Housing.

Respectfully submitted on
behalf of the members of the
Committee on Health,



DAVID Y. IGE, Chair



The Senate
Twenty-Fourth Legislature
State of Hawaii

Record of Votes
Committee on Health
HTH

Bill / Resolution No.:* SB 12	Committee Referral: HTH, CPH	Date: <i>2-7-07</i>
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____		
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313		
Members	Aye	Aye (WR)
IGE, David Y. (C)	✓	
FUKUNAGA, Carol (VC)	✓	
BAKER, Rosalyn H.	✓	
MENOR, Ron		✓
WHALEN, Paul	✓	
TOTAL	<i>4</i>	<i>1</i>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted		
Chair's or Designee's Signature: 		
Distribution:	Original File with Committee Report	Yellow Clerk's Office
		Pink Drafting Agency

*Only one measure per Record of Votes