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February 22, 2010

MEMORANDUM

TO: Honorable Marcus R. Oshiro, Chair  
House Committee on Finance

FROM: Lillian B. Koller, Director

SUBJECT: **H.B. 2774, H.D.1 – RELATING TO HUMAN SERVICES**

Hearing: Monday, February 22, 2010, 10:00 A.M.  
Conference Room 308, State Capitol

PURPOSE: The purpose of this bill is to require the Department of Human Services to replace its QUEST program with the predecessor public assistance programs including the State Health Insurance program.

DEPARTMENT'S POSITION: The Department of Human Services (DHS) strongly opposes this bill as it will require a substantial new appropriation, will result in decreased payment to providers, and would result in decreased eligibility for children.

When the QUEST Medicaid waiver was last renewed, the budget neutrality analysis showed a net savings up to that time (through June 2008) of **\$695 million** to the Federal government and the State of Hawaii from having the QUEST program instead of fee-for-service. The analysis predicted further savings of \$1.473 billion over the five year renewal period. At a normal match rate (which is probably what would be in place by the time H.B. 2774 would take effect), **it would cost a five-year cost in**

**State general funds of over a half-billion dollars to return to the fee-for-service program.**

The QUEST managed care program operates significantly more efficiently than the pre-QUEST fee-for-service program. This efficiency results in a decreased amount of State general funds needed to fund the State's medical assistance programs and the contracted health plans' abilities to reimburse providers at rates above Medicaid fee-for-service rates.

If QUEST were to be terminated, a substantial new appropriation would be required to maintain comparable benefits in a fee-for-service program and providers will be reimbursed only at the Medicaid fee schedule. Decreasing reimbursements to providers also could decrease access to providers for our medical assistance recipients.

The QUEST program generates substantial expenditure savings compared to fee-for-service, not only in State funds, but also federal funds. Those expenditure savings in federal funds are used to expand medical assistance to individuals who are not required to be covered. These optional expansions are subject to the federal budget neutrality requirement. If more federal funds are expanded in Medicaid fee-for-service, then federal funds would not be available for the optional expansion of eligibility for children up to 300% of the federal poverty level and for adults in QUEST-ACE or QUEST-Net. Optional benefits would be affected as well. The loss is federal funding for these programs would require a reduction in eligibility or benefits, and a substantial new appropriation of State general funds.

Thank you for this opportunity to provide written testimony.

# HMSA



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February 22, 2010

The Honorable Marcus Oshiro, Chair  
The Honorable Marilyn Lee, Vice Chair  
House Committee on Finance

**Re: HB 2774 HD1 – Relating to Human Services**

Dear Chair Oshiro, Vice Chair Lee and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on HB 2774 HD1 which would replace the QUEST programs with public assistance programs which preceded it including the state health insurance program.

As you are aware, recently the Department of Human Services (DHS) stated that due to budgetary shortfalls, they will delay payments to contracted QUEST plans, beginning in April (potentially March) and extending through June. While we understand the budgetary restrictions the State is facing, DHS' decision significantly impacts a health plan's ability to pay for services. This has caused great concern, not only for the QUEST plans, but for our members and participating providers as well.

We do appreciate the creativity and out-of-the-box thinking of HB 2774 HD1. Reverting back to programs in existence prior to the creation of the QUEST programs could offer the state more flexibility in regard to benefit structure and cost sharing with members.

Again we appreciate the dialogue that HB 2774 HD1 will surely open and hope that we can continue to strive towards finding workable solutions for problems the state's Medicaid system is facing today.

Thank you for the opportunity to testify.

Sincerely,

Jennifer Diesman  
Vice President  
Government Relations