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TO THE HOUSE COMMITTEE ON FINANCE

TWENTY-SEVENTH LEGISLATURE
Regular Session of 2014

Wednesday, February 26, 2014
11:15 a.m.

WRITTEN TESTIMONY ONLY

TESTIMONY ON HOUSE BILL NO. 2525, H.D. 2 – RELATING TO THE HEALTH INSURANCE RATES.

TO THE HONORABLE SYLVIA LUKE, 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 offers the following comments.

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 Affordable Care Act ("ACA").

The initial impression is community rating appears to be fair because everyone pays the same rate. Its unfairness, however, 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 groups seeing large increases and other groups 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 will undoubtedly drive rates up even higher. With respect to small employers, the pure community rate will tend to cost employers more to insure a younger workforce than an older workforce. It will tend to cause higher premiums for younger workers and families with children, and disadvantage 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 whether the rate impact will be minimized with the creation of a Hawaii specific age curve, seeking an exemption from the federal Department of Health and Human Services by requesting an extension of the transitional plan through 2017.

With regard to the temporary premium subsidiary program for 2014, such a program is not advisable because individuals and small employer groups can already stay with their 2013 transitional “grandmothered” plans or chose ACA 2014 plans, which individuals and small businesses may qualify for subsidies and credits. In addition, it would be difficult to determine the parameters of such a program.

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

HPCA
HAWAI'I PRIMARY CARE ASSOCIATION

House Committee on Finance
The Hon. Sylvia Luke, Chair
The Hon. Scott Y. Nishimoto, Vice Chair
The Hon. Aaron Ling Johnson, Vice Chair

Testimony on House Bill 2525, HD2

<u>Relating to Hawaii Health Insurance Rates</u>
Submitted by Robert Hirokawa, Chief Executive Officer
February 26, 2014, 11:15 am, Room 308

The Hawaii Primary Care Association (HPCA), which represents the federally qualified community health centers in Hawaii, offers comments on House Bill 2525 HD2, which calls for the establishment of insurance rates based on community rating.

The HPCA believes in providing a form of healthcare that focuses on wellness and healthy living. While we appreciate what appears to be an attempt at cost sharing through premiums for small employers, by implementing the community rating proposed in House Bill 2525 HD2, consumers may be unintentionally discouraged from practicing better health habits.

Thank you for the opportunity to testify.

HMSA

Blue Cross Blue Shield of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

February 26, 2014

The Honorable Sylvia Luke, Chair
The Honorable Scott Y. Nishimoto, Vice Chair
The Honorable Aaron Ling Johanson, Vice Chair
House Committee on Finance

Re: HB 2525, HD2 – Relating to Health.

Dear Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on HB 2525, HD2. HMSA supports Part 1 of this Bill.

Part 1 of this Bill requires health care premium rates for individual and small group plans to be based upon a pure community rating system. HMSA is supportive of such a 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, HD2.

Sincerely,

Mark K. Oto
Director
Government Relations

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ProService HAWAII
HR ADMINISTRATION

Comments to the Committee on Finance
Wednesday, February 26, 2014
11:15 AM
Conference Room 308
RE: HOUSE BILL 2525 (HD2) RELATING TO HEALTH INSURANCE RATES

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, 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.

KAISER PERMANENTE

Government Relations

Testimony of Phyllis Dendle

LATE

Before:
House Committee on Finance
The Honorable Sylvia Luke, Chair
The Honorable Scott Y. Nishimoto, Vice Chair
The Honorable Aaron Ling Johanson, Vice Chair

February 26, 2014
11:15am
Conference Room 308

HB2525 HD2 RELATING TO HEALTH INSURANCE RATES

Chair Luke, and committee members, thank you for this opportunity to provide testimony on HB2525 HD2 that requires community rating for small group plans.

Kaiser Permanente Hawaii opposes this bill.

We believe that the impact to small business rates were Hawaii to adopt a pure community rating approach would be very harmful.

Firstly, the adoption of pure community rating would not soften the impact of the new ACA rating rules but instead this one-size-fits-all rating strategy would result in exactly the opposite effect. There would be massive rate disruption. Relative to rates generated by the current 3:1 CMS age slope, rates for generally young and healthy individuals in their young 20s would effectively increase by roughly 50%, while rates for older individuals who are close to retirement would go down by about 50%. Also the smaller the group size, the wider the variation there is in demographic make-up. Therefore the elimination of age rating would disproportionately impact the smallest groups, with the hardest hit in terms of rate increases being those which are predominantly comprised of young individuals and/or families. We estimate that the rate change

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as a result of switching to pure community rating would be roughly 23-28% depending on the number of subscribers.

Secondly, despite Prepaid Health Care Act requirements, there would undoubtedly be some gaming of the system by employers that are the most adversely impacted by the change. Strategies to mitigate the rate impact could include:

* reducing or eliminating dependant coverage entirely, particularly given that under a pure community rating approach children cost just as much to cover as adults;
* limiting hours worked by employees;
* switching over to self-funding arrangements since self-funded groups are currently exempt from ACA rating restrictions; and/or
* non-adherence to Prepaid requirements.

All of the above could potentially be very damaging to individual groups as well as to the small group market as a whole. For example, a self-funding approach is generally not advisable for any but the largest groups whose experience is generally more stable and predictable and that can financially withstand swings in experience as well as the impact of catastrophic claims. However this approach may appear attractive to small groups receiving large rate hikes as a result of the change in age rating because they would now be required to pay a disproportionately high premium in relation to their expected claims cost. In the short term, these actions would serve to drive up rates for the small group market because the exit of these younger, healthier groups would skew the demographic of the insured population towards older, less healthy members. Ultimately this could create a domino effect with potential for a rate spiral over the longer term that could make healthcare unaffordable in the Hawaii small group market as a whole.

We understand the attractiveness of a pure community rating approach from a policy perspective. However there is an inaccurate belief in the community that age rating is new. This could not be further from the truth. Carriers have traditionally largely used demographic rating (age and gender) to calculate small group rates, with some modification for health status/risk/utilization. This is why it was selected as a means of rating under the federal ACA. It is a fair way of distributing the costs of insurance since as people age they generally use more health care. They are not being disadvantaged because of age but are being required to pay more because as a group they use more.

We want to emphasize that the biggest adverse consequences of introducing pure community rating will be:

*massive rate disruption;

*a smaller fully insured risk pool as the individuals and/or groups with the biggest increases explore alternative funding methods; and

*ultimately the loss of coverage for some and higher rates for those who remain in the fully insured pool as the risk characteristics of the pool deteriorates.

Thank you for your consideration.

TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-SEVENTH LEGISLATURE, 2014

ON THE FOLLOWING MEASURE:
H.B. NO. 2525, H.D. 2, RELATING TO HEALTH INSURANCE RATES.

LATE

BEFORE THE:
HOUSE COMMITTEE ON FINANCE

DATE: Wednesday, February 26, 2014 **TIME:** 11:15 a.m.

LOCATION: State Capitol, Room 308

TESTIFIER(S): David M. Louie, Attorney General, or
Daniel K. Jacob, Deputy Attorney General

Chair Luke and Members of the Committee:

The Department of the Attorney General opposes the bill in its current form because it violates article VII, section 4, of the Hawaii State Constitution.

The purposes of this bill are: to require individual health insurance plans and small group plans to establish premium rates based upon pure community rating, and to establish a temporary premium subsidy program to offset all or some of the increases in health insurance premiums that result from the application of age-based premium ratings in compliance with federal law.

This bill attempts to establish a subsidy program that would award public money to private individuals in violation of article VII, section 4, of Hawaii State Constitution, which provides, in relevant part:

> No grant of public money or property shall be made except pursuant to standards provided by law.

Contrary to the constitution, this bill contains no standards pursuant to which public moneys can be awarded to private entities.

Pursuant to part II, section 2(d), of the bill, the Hawaii health connector, in consultation with the Insurance Commissioner, is tasked with developing rules and procedures to establish subsidy amounts and administer the temporary premium subsidy program. (Page 3, lines 3-6). Any standards developed and enacted by the Hawaii health connector (a private entity) would not constitute standards provided by law.

Historically, the State has addressed similar concerns by establishing the standards through enactment of legislation. *See e.g.*, Hawaii Revised Statutes (HRS) § 210D-11, (regarding planning and economic development).

If the Committee is inclined to pass this bill, providing similar standards would satisfy the constitutional requirement set forth above.