

# HOUSE BILL REPORT

## E2SHB 1569

---

### As Amended by the Senate

**Title:** An act relating to reforming the health care system in Washington state.

**Brief Description:** Reforming the health care system in Washington state.

**Sponsors:** By House Committee on Appropriations (originally sponsored by Representatives Cody, Campbell, Morrell, Linville, Moeller, Green, Seaquist, Conway, Dickerson, Appleton, McIntire, McCoy, Kagi, Pedersen, Kenney, Lantz, Santos, Wood and Ormsby).

**Brief History:**

**Committee Activity:**

Health Care & Wellness: 1/31/07, 2/8/07 [DPS];

Appropriations: 3/1/07, 3/3/07 [DP2S(w/o sub HCW)].

**Floor Activity:**

Passed House: 3/10/07, 53-44.

Senate Amended.

Passed Senate: 4/12/07, 28-20.

#### Brief Summary of Engrossed Second Substitute Bill

- Creates the Washington Health Insurance Partnership (WHP) to purchase health insurance for small employers and act as the administrator of participating small employer health plans.
- Requires the Health Care Authority to study the implementation of the WHP and report to the Legislature on January 1, 2008.
- Requires that the request for proposals to operate the WHP be issued April 1, 2008, unless legislative action rejects or modifies the proposal during the 2008 legislative session.
- Creates the 12-member WHP Board, which will release the request for proposals, approve health benefit plans that are eligible for premium assistance through the WHP program, and approve policies for the operation of the program.

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

- Directs that all health benefit programs available to small employers through the small group market will be sold through the WHP beginning January 1, 2009.
- Provides that within appropriated funds, premium assistance will be available to WHP participants with incomes at or below 200% of the federal poverty level.

---

## HOUSE COMMITTEE ON HEALTH CARE & WELLNESS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Cody, Chair; Morrell, Vice Chair; Barlow, Campbell, Green, Moeller, Pedersen, Schual-Berke and Seaquist.

**Minority Report:** Do not pass. Signed by 4 members: Representatives Hinkle, Ranking Minority Member; Alexander, Assistant Ranking Minority Member; Condotta and Curtis.

**Staff:** Dave Knutson (786-7146).

---

## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Health Care & Wellness. Signed by 26 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Cody, Conway, Darneille, Ericks, Fromhold, Grant, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, McDonald, McIntire, Morrell, Pettigrew, Priest, Schual-Berke, Seaquist, P. Sullivan and Walsh.

**Minority Report:** Do not pass. Signed by 8 members: Representatives Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Haler, Assistant Ranking Minority Member; Anderson, Buri, Chandler, Dunn and Kretz.

**Staff:** David Pringle (786-7310).

### **Background:**

In 2004, Washington had approximately 600,000 uninsured persons under age 65. For adults ages 19-64, 13.2 percent were uninsured. For children ages 0-16, 6 percent were uninsured. Health coverage through an employer in Washington has declined from 71 percent in 1993 to around 66 percent in 2004. Rising health care costs are a significant barrier to small employers offering health coverage for their workers. Between 1999 and 2004, the annual increase in health insurance premiums for small businesses in Washington was substantially greater than the annual increase in wages or gross business income, some years by a factor of more than five. It is estimated that poor quality health care costs the typical employer between \$1,900 and \$2,250 per covered employee per year. Recent studies have shown that only a little more than half of adult patients receive recommended care. The level of performance is

similar whether it is for chronic, acute, or preventive care and across all spectrums of medical care, including screening, diagnosis, treatment and follow-up.

**Summary of Engrossed Second Substitute Bill:**

The Washington Health Insurance Partnership (WHP) is established to provide the mechanism to purchase small group health benefit plans by small employers. Upon implementation, the WHP will act as the administrator of participating small employer health plans, and will collect and transmit employer contributions and premium assistance payments to health carriers. Prior to implementation, the Health Care Authority (HCA) will study the implementation of the WHP and report to the Legislature on January 1, 2008. A request for proposals to operate the WHP will be issued April 1, 2008, unless legislative action rejects or modifies the proposal during the 2008 legislative session.

The request for proposals shall include a description of the function of the WHP encompassing offering a choice among any small group health plan approved by the Office of the Insurance Commissioner, enrollment and participation procedures, a system of maintaining administrator status under federal law, a system of collecting premiums from participants and transmitting payments to health carriers, a system for determining eligibility for premium assistance, a mechanism for payment of commissions to brokers for the enrollment of small groups in the WHP, and a plan to offer health benefit plans through the WHP by July 1, 2009.

The WHP Board is created, including 12 members appointed by the Governor, including a member of the American Academy of Actuaries, two representatives of small businesses, two employee plan benefits specialists, two representatives of health care consumers, a licensed physician, a licensed health insurance broker, the Assistant Secretary of the Department of Social and Health Services Health Recovery Services Administration, the Insurance Commissioner and the Administrator of the Health Care Authority (Administrator). The Governor appoints all members of the WHP Board for staggered terms not to exceed four years, beginning on or before June 1, 2007.

A premium assistance program is established as part of the WHP program. Within appropriated funding, participants below 200 percent of the federal poverty level shall be offered assistance with the payment of premiums for certain health plans offered through the WHP that are designated as premium assistance-eligible by the Administrator. The premium assistance eligible health plans shall include innovative components that maximize quality of care and health outcomes, range from catastrophic to comprehensive, and at least one shall offer similar services and cost-sharing as the Basic Health Plan.

A non-appropriated Partnership Premium Assistance Account (Account) is established for any Non-General Fund-State funds obtained for the program, as well as any other funds appropriated for the premium assistance portion of the WHP program. Money in the Account shall be used exclusively for the purposes of administering the Partnership Premium Assistance Program. Only the Administrator or designee may authorize expenditures from the Account.

The WHP shall annually report to the WHP Board, the Governor, and the Legislature on the accounts and activities of the WHP. No later than two years after the WHP begins operations, the HCA shall study the WHP and submit a written report to the Governor and Legislature on the status and activities on the program. On or before December 1, 2009, the WHP Board shall submit a report to the Governor and Legislature on the risks and benefits of additional markets participating in the WHP, including association health plans, individual health insurance plans, the Washington State Health Insurance Pool, the Basic Health Plan, Public Employees' Benefits Board enrollees, and Public School Employees.

After January 1, 2009, all health coverage through the small group market will only be available through the WHP. Association plans will continue to be sold outside the WHP.

**EFFECT OF SENATE AMENDMENT(S):**

The Senate amendment deletes the creation of the Washington health insurance partnership and makes changes to the small employer health insurance program that will include some connector functions and will be renamed the health insurance partnership. The requirement that the actuarial value of a health benefit plan available through the program be equivalent to the basic health plan is deleted. Employees are prohibited from receiving a subsidy through the health insurance partnership for six months if they have employer-sponsored health insurance when they begin participating in the program. A seven member board made up of people with experience in the health insurance market and benefit design will develop all elements of the health insurance partnership. The reports on including additional health insurance markets in the health insurance partnership in December, 2008 and December, 2009 are replaced with a preliminary report in December, 2008 and a final report in September, 2009.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed, except sections 1 through 6, relating to the creation of the Health Insurance Partnership, which take effect July 1, 2007.

**Staff Summary of Public Testimony:** (Health Care & Wellness)

(In support) This Connector will make it easier for the employers and employees to afford and keep health coverage. The sequencing of the elements of this bill are important to get right. As the bill is written, most of the high risk will go into the pool first. Other groups with known risk and lower risk, like state employees or K-12 employees, should go into the Connector first. This proposal will increase competition and result in lower costs for consumers. This is a good approach to sharing responsibility for the cost of health coverage between individuals, employers, and government. The Connector should be required to use a risk adjustment mechanism.

(Neutral) The model of a Connector aligns incentives in the health care system to get better results at a better cost. It will provide continuity of coverage for workers who change employers or might be self insured. It will lead to better continuity of care and better health outcomes. It will result in the consumer choosing the health plan that best meets their needs rather than having health plans attempting to choose their customers. If employees and employers are able to contribute pre-tax dollars when purchasing health coverage through the Connector the employee can realize a savings in the cost of their health coverage. In moving to this model a state should start with a population the health carriers know well.

(With concerns) Combining the individual market, the high risk pool and the small group market will result in higher costs for everyone receiving their health coverage through the Connector. These reforms will not attract other health carriers into Washington from other states. Providing a reinsurance program will reduce incentives for health carriers to manage the care and costs of their enrollees. The Connector could result in an increased average risk in the risk pool. An up-front risk adjustment is a better alternative than a reinsurance program. There is no funding source for the premium subsidy or the reinsurance programs created in the legislation. There must be a broad based consensus about any changes in the health insurance statutes to ensure any reforms will not be overturned in a few years.

(Opposed) This bill does not address what small business is asking for. Business wants affordable health coverage through the private market with more options. The mandatory nature of the Connector is a problem. Association health plans are already providing affordable health coverage. There might be a narrower application of the Connector concept that could be tried. We should make improvements to the existing health care coverage system and not throw out the entire system.

**Staff Summary of Public Testimony: (Appropriations)**

(In support) We supported the original version of this bill, and this version too. Waiting longer also has fiscal implications as the market is failing right now. The costs are being borne by the state taxpayers and other policy-payers. The bipartisan sponsorship of this second substitute is heartening, but we are concerned about reducing the pool that will be added to the connector even further. If we wait until 2009, consider funding the Small Employer Health Insurance Program that was created last year in the meantime. My business employs 20 people, and the long term impact to the state of passing this bill will be positive. The current system leaves too many people behind.

(With concerns) We are concerned that this would change the group marketplace into an individual marketplace instead. There has been commendable bipartisanship and energy in creating this, and connectors are intended to reduce administrative costs, add choice and portability. We support the goals and timeframe, but we support the study-first approach that was in House Bill 2098 instead. The health carriers prefer that course because we don't have enough information right now to understand the risks created by this bill.

(Opposed) We have just seen the new large proposed substitute bill, and have not had the opportunity to analyze it yet. But our concerns remain. We believe that as a connector or as a

partnership this would be a massive overhaul of small employer coverage and we think that there needs to be an opportunity to evaluate this idea as was suggested in the Governor's blue ribbon commission bill. Sixty percent of our members oppose the connector approach as it eliminates the existing small group market. It needs to be studied thoroughly first. How will this affect our premiums? My business has five employees, and while we want affordable coverage, we don't support this bill. We don't want another experiment like in the early 1990s that destabilized the market. We have computer models now that can produce excellent studies of this behavior.

**Persons Testifying:** (Health Care & Wellness) (In support) Dr. Sarah Weinberg, Washington Chapter of Health Care for All; Robby Stern, Washington State Labor Council; Chuck Hawley, Providence Health and Services; Lonnie Johns-Brown, Washington Chapter of National Organization for Women and Washington Clinical Society; Bill Daley, Washington Community Action Network; Len McComb, Washington State Hospital Association; and Mike Kreidler, Office of the Insurance Commissioner.

(Neutral) Ed Heisselmeier, Heritage Foundation; and Rick Curtis, Institute for Health Policy Solutions.

(With concerns) Karen Merrikin, Group Health Cooperative; Audry Halvorson, Primera; Nancy Ellison, Regence Blue Cross Blue Shield; Rebecca Kavoussi, Community Health Plan of Washington; and Paul Chasco and Tammy Fellin, Association of Washington Cities.

(Opposed) Carolyn Logue, National Federation of Independent Business; Patrick Connor, Washington Farm Bureau; Mellani McAleenan, Association of Washington Business; Gary Smith, Independent Business Association; Mel Sorensen, Washington Association of Health Underwriters; David Westberg, Stationary Engineers and American Federation of Labor and Congress of Industrial Organizations; and Paul Guppy, Washington Policy Center.

**Persons Testifying:** (Appropriations) (In support) Kent Davis, Gene Otto, and Bill Daley, Washington Community Action Network.

(With concerns) Ryan Spiller, Washington Fire Commissioners Association; Melanie McAleenan, Association of Washington Business; and Nancee Wildermuth, Regence Blue Shield, Pacific Care, and Aetna.

(Opposed) Carolyn Logue, National Federation of Independent Business; Mel Sorensen, America's Health Insurance Plans; Gary Smith, Independent Business Association; and Susan Pittman, Washington Association of Health Underwriters.

**Persons Signed In To Testify But Not Testifying:** (Health Care & Wellness) Patty Smith, Washington Association of Health Underwriters; Erica Oberg, Washington Association of Naturopathic Physicians; Rachel Berkson, Washington State Council of Stronger Together Service Employees International Union; Roger Collier, Roger Collier and Associates; Jed Wessman, Washington State Association of Counties; and Jeff Johnson, Washington State Labor Council.

**Persons Signed In To Testify But Not Testifying:** (Appropriations) None.