

# HOUSE BILL REPORT

## HB 1569

---

**As Reported by House Committee On:**  
Health Care & Wellness

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

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

**Sponsors:** 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].

### Brief Summary of Substitute Bill

- Creates a Health Insurance Connector to simplify and improve the purchasing of health insurance for individuals and employees of small business.
- Combines employees of small employers and individuals receiving health coverage through association plans into a single pool through the connector.
- Establishes a premium subsidy mechanism for low income individuals.

---

### 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).

**Background:**

---

*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.*

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 Substitute Bill:**

#### Connector

A Washington State Health Insurance Connector (Connector) is established. It will be administered by the Health Care Authority Administrator. The Connector will be governed by a 12-member Board. The Connector will be responsible for developing and approving all health benefit plans sold by carriers through the Connector for small employer groups and employees receiving health coverage through association plans. Four or six plans will be offered, with at least three deductible and point-of-service cost-sharing options. Benefits plans will include a plan comparable to the Basic Health Plan, and other plans ranging from catastrophic to comprehensive coverage. All benefit plans offered through the Connector must include components to improve quality of care and health outcomes. The Connector will be responsible for establishing eligibility procedures, collection and transmission of all premium payments and payroll deductions, and all other aspects of operating a health insurance coverage program. Health benefit plans will be available through the Connector beginning January 1, 2008. Also on January 1, 2009, the Connector will administer a premium assistance program for individuals and employees with household incomes at or below 200 percent of the Federal Poverty Level. The Connector will charge a surcharge on all health benefit plans offered to pay for administrative and operational expenses.

#### Insurance Standards

After January 1, 2009 all health coverage through the small group market, including plans offered through an association or member governed group, will only be available through the Connector. Health benefit plans offered through the Connector must be certified by the Insurance Commissioner. Carriers will develop their rates for health benefit plans offered through the Connector on an adjusted community rate that may be varied for:

- (a) geographic area;
- (b) family size;
- (c) age; and

(d) wellness activities.

Rates for any age group cannot be more than 375 percent of the lowest rate for all age groups. Adjusted community rates will pool the medical experience of all eligible individuals. Carriers are authorized to treat people under 30 as a separate experience pool when setting their rates.

#### Individual Market and Washington State Health Insurance Pool

After January 1, 2012, Carriers will not issue or renew any individual health benefit plans except through the Connector.

#### Employer and Individual Responsibilities

Employers with more than five employees are required to adopt and maintain a cafeteria plan, and will collect and transmit amounts designated as payroll deductions by employees to the Connector. After January 1, 2012, individuals over 18 are required to obtain and maintain creditable health coverage, if it is deemed affordable by the Connector Board (Board).

#### **Substitute Bill Compared to Original Bill:**

The insurance markets that are required to be offered through the Connector are limited to small group and association plans. The Board will establish procedures to include the individual market, Washington health insurance program, basic health plan, and state and K-12 employees in the Connector after January 1, 2012. The Board membership is reduced from 14 to 12, and health carriers are allowed to serve on it. The maximum number of health benefit plans that may be offered is increased from five to six, and the Board is given greater flexibility in designed health benefit plans that range from catastrophic to comprehensive coverage. The Board may offer a limited health care service plan for dental services. The Board is directed to develop a risk adjustment system. The basic health plan will not transition into a premium assistance program through the Connector until 2012. Commissions will be paid to associations as well as brokers when an eligible small group enrolls in the Connector. The reinsurance program operated by the Office of the Insurance Commissioner is removed. The use of the standard health questionnaire is required for individuals applying for nonsubsidized enrollment in the basic health plan.

---

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed, except for sections 304 to 306, relating to small group insurance coverage through the Connector, which takes effect January 1, 2009.

#### **Staff Summary of Public Testimony:**

(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.

**Persons Testifying:** (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 Signed In To Testify But Not Testifying:** 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.