

Honolulu, Hawaii
February 14, 2014

RE: H.B. No. 2525
H.D. 2

Honorable Joseph M. Souki
Speaker, House of Representatives
Twenty-Seventh State Legislature
Regular Session of 2014
State of Hawaii

Sir:

Your Committee on Consumer Protection & Commerce, to which was referred H.B. No. 2525, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO HEALTH INSURANCE RATES,"

begs leave to report as follows:

The purpose of this measure is to address certain health insurance market reforms required by the Patient Protection and Affordable Care Act (PPACA).

Specifically, this measure:

- (1) Requires individual health insurance plans and small group plans to establish premium rates based upon pure community rating; and
- (2) Establishes and appropriates moneys for a state innovation waiver task force to examine the feasibility of alternatives to certain health reforms in the PPACA and develop a plan for applying for a state innovation waiver that meets the requirements of the PPACA.

Hawaii Medical Services Association submitted testimony in support of this measure. The Department of Commerce and Consumer Affairs and ProService Hawaii submitted comments.

Section 1201 of the PPACA limits the variation among health insurance premium rates for adults in the individual and small



group markets to no more than a ratio of 3:1 based upon age. Generally, this permits insurance premium rates for older adults to be no more than three times the premium rates charged to younger adults. Your Committee finds that there is a high percentage of older adults in Hawaii's privately insured population. For example, as of February 8, 2014, the Hawaii Health Connector reported a total of 4,149 persons enrolled in health insurance plans sold through the Connector. Of those enrollees, the distribution by age is as follows:

AGE	NUMBER OF ENROLLEES
Under 18	410
18-25	230
26-34	538
35-44	549
45-54	710
55-64	1302
65 and Over	410

Your Committee observes that the majority of enrollees are ages forty-five and older. The required limits on age rating result in disproportionately higher premiums for older insureds. Your Committee is concerned that small employers are already being impacted by increases in premium rates that result from the required age-based premium ratio. Your Committee cautions that dramatic premium rate increases may prompt small employers to delay hiring new employees or to reduce existing employees' work hours to avoid the requirement to provide health insurance under the Hawaii Prepaid Health Care Act. Accordingly, your Committee believes that a "pure" community rating, or a ratio of 1:1, would produce a more equitable balance of insurance premium rates across all age groups. In addition, a temporary subsidy to offset premium increases due to new age rating criteria in the small group and individual markets would provide relief for small businesses and individuals until premium rates stabilize.

Accordingly, your Committee has amended this measure by:

- (1) Deleting provisions relating to the state innovation waiver task force and the appropriation to support the task force;
- (2) Establishing a temporary premium subsidy program for individual and small group plans sold through the Hawaii Health Connector to offset increases in health insurance



premiums that result from the application of age-based premium ratings required by the PPACA;

- (3) Making an appropriation to fund the temporary premium subsidy program;
- (4) Changing the effective date to July 1, 2112, to facilitate further discussion on the measure; and
- (5) Making technical nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2525, H.D. 1, as amended herein, and recommends that it be referred to the Committee on Finance in the form attached hereto as H.B. No. 2525, H.D. 2.

Respectfully submitted on
behalf of the members of the
Committee on Consumer
Protection & Commerce,



ANGUS L.K. MCKELVEY, Chair



