FINAL REPORT
OF THE
HEALTH FINANCE COMMISSION

Indiana Legislative Services Agency
200 W. Washington St., Suite 301
Indianapolis, Indiana 46204-2789

November, 2003

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2003 Health Finance Commission

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Legislative Services Agency Staff

Kathy Norris, Fiscal Analyst
Casey Kline, Attorney

A copy of this report is available on the Internet. Reports, minutes, and notices are organized by committee. This report and other documents for this Commission can be accessed from the General Assembly Homepage at http://www.state.in.us/legislative/.

FINAL REPORT

Health Finance Commission

I. STATUTORY AND LEGISLATIVE COUNCIL DIRECTIVES

The Indiana General Assembly enacted legislation establishing the Health Finance Commission to study health finance in Indiana. The Commission may study any topic: (1) directed by the chair of the Commission; (2) assigned by the Legislative Council; or (3) concerning issues that include the delivery, payment, and organization of health care services and rules that pertain to health care delivery, payment, and services that are under the authority of any board or agency of state government.

The Legislative Council charged the Commission to study the following additional topic: the increasing number of uninsured (as proposed in SCR 11).

II. INTRODUCTION AND REASONS FOR STUDY

Senate Concurrent Resolution 11 urged the Health Finance Commission to review the issue of the rising number of uninsured in Indiana and to develop a plan for ensuring the availability of lower cost health insurance for individuals and employers. Senator Lawson introduced the resolution in response to concern that the number of uninsured individuals in Indiana is rising due to the increasing cost of health insurance premiums to individuals and employers. The increase in the number of individuals unable to secure health insurance has restricted citizens' access to health care services and caused more persons to seek coverage under state health insurance programs.

The Commission was to conduct a review of existing and forthcoming studies, data, and legislative action in other states to:

(1) develop a plan to reduce the number of uninsured in the state;
(2) review the factors causing the increasing cost of health coverage in Indiana; (3) identify viable approaches to making lower cost health insurance coverage available to individuals and employers; and
(4) report the Commission's findings, conclusions, and recommendations for legislative action.

III. SUMMARY OF WORK PROGRAM

The Commission met five times during the 2003 interim.

The first meeting was held July 23, 2003, at the State House in Indianapolis. The meeting was devoted to hearing testimony concerning the role of general community hospitals, public hospitals, and the state in providing health care to the uninsured. The Commission also heard an update on the status of the state high-risk insurance pool administered by the Indiana Comprehensive Health Insurance Association (ICHIA).

The second meeting was held August 20, 2003, at the State House in Indianapolis. The meeting focused on updating members of the Commission on the following topics: (1) the Indiana Arthritis Initiative plan; (2) fireworks-related injury reporting; (3) a review of the process leading to the creation of the Family and Social Services Administration; and the implementation of SEA 493-2003 regarding the provision involving the shifting of services from

institutional care to home-based care.

The third meeting was held September 24, 2003, at the State House in Indianapolis. The meeting was devoted to hearing testimony from the primary purchasers of health insurance, employers, and businesses. The Commission also heard testimony from insurers. The Commission also heard a report on a survey conducted to study the characteristics of the uninsured population in Indiana. The Commission heard additional testimony on the lack of progress in implementation of in-home care reforms required in SEA 493-2003.

The fourth meeting was held October 2, 2003, at the State House in Indianapolis. The meeting focused on the issue of health care specialty niche providers, and payment practices and health insurance coverage requirements that fuel increased cost due to duplication of equipment, services, and excessive capital expansion. The Commission heard testimony on health provider reimbursement contract clauses called "most-favored-nation clauses" and a follow-up response from Anthem Insurance to criticism of record high health insurance profits.

The fifth meeting was held October 30, 2003, at the State House in Indianapolis. The meeting was for the purpose of considering and approving legislative recommendations and the Commission's final report. The Commission heard an updated progress report on the implementation of changes in ICHIA. Testimony was heard on how guaranteed issue requirements for health insurance would affect the availability and cost of health insurance policies in the state. The Commission heard a presentation on data collection and quality outcome work by the Commissioner of the State Department of Health. The Commission was also given an update by the Department of Insurance on premium increases in the Patient Compensation Program.

IV. SUMMARY OF TESTIMONY

This section is a general summary of testimony received by the Commission on the issue of the increasing number of uninsured Hoosiers. To read a more complete record of this testimony and other matters considered by the Commission, the minutes for the Commission's five meetings can be found on the homepage of the Indiana General Assembly (http://www.in.gov/legislative/) or copies may be obtained by contacting the Legislative Information Center of the Legislative Services Agency.

The Uninsured in Indiana

Cindy Collier of the Family and Social Services Administration (FSSA) presented summary results of a health insurance survey of Indiana families performed for the agency. The survey was conducted between February and April 2003; over 10,000 Indiana residents were contacted. The results show that, at the time of the survey, the percentage of all uninsured Hoosiers was 9.2%. If persons who were uninsured at some point in time during the past year were included, the rate increased to 12.3%. The survey indicated that over 750,000 Hoosiers were without health care insurance at some time during the past year. The survey summary indicated that over the past five years, the number of uninsured has increased according to several different surveys. The increase in the uninsured coincides with the national economic downturn.

The survey results indicate the following:
(1) The majority of persons with insurance are covered through their employers.
(2) Indiana has a lower rate of persons on Medicaid and the Children's Health Insurance

Program (CHIP) when compared to other states (8%).
(3) African Americans have the highest rates of uninsurance at 14.1%, followed by Hispanics at 11.5%.
(4) The rate for all single men under age 65 who report having no health insurance is 57.5%.
(5) The rate for all single women under age 65 who report having no health insurance is 42.5%.
(6) Generally, people without health coverage are from working families; 62% of uninsured families have incomes of 200% or less of the federal poverty level (FPL).
(7) 21% of all uninsured in Indiana earn over 300% of the FPL.
(8) The urban areas with the highest rates of uninsured persons were observed in Gary and Muncie.

When asked why they are uninsured, the majority of respondents reported that the cost of coverage was prohibitive. Thirty percent of the uninsured qualify for employer-sponsored coverage, but do not buy it because it is too expensive or they do not qualify. The survey reported that the percentage of Indiana firms offering health insurance has increased over the past five years, but the take-up rate has decreased.

Increasing Cost of Insurance Premiums

Several small employers and representatives of the business community testified that Indiana employers have been experiencing double-digit rates of increase in health insurance premiums for at least the last three years. They report that the high cost of health insurance coverage forces employers to withdraw the benefit, require employees to pay a larger share of the premium, reduce the benefit, or increase the copayments and deductibles. Increasing the employee's share of the benefit cost was reported to result in many individuals dropping coverage because they cannot afford the additional expense. Jason Shelley reported that one-quarter of Indiana's small business employers eliminated the insurance benefit altogether.

Indiana Premium Costs Compared to Other States

Several individuals testified that Indiana health insurance premium rates were very high in comparison with those charged in other states. Tamara Stanton reported that while Indiana has very low property and casualty insurance rates in comparison to other states, the state's health care insurance coverage cost ranks very high. In addition, Jason Shelley reported that, according to the Kaiser Foundation, Indiana small employers' premium rates are increasing at a higher rate then the national average for the same employer group.

Causes for High Health Insurance Premiums

Several causes for the high cost of health insurance premiums were discussed in testimony before the Commission. Some possible factors mentioned included:
(1) legislatively mandated coverage requirements;
(2) lack of availability of "basic coverage" types of benefit plans;
(3) lack of health care outcome data and information on provider quality;
(4) lack of personal responsibility on the part of consumers and no market incentives for them to assume responsibility for personal health status;
(5) lack of market forces and financial impacts on consumers that would influence them to make good health care buys;
(6) inability of employers to get claims data necessary to understand what services they buy in exchange for premium dollars;
(7) payment system that focuses on acute care provision of goods and services instead of

quality of patient outcomes;
(8) an oversupply of health care services and no market forces in place to help regulate the supply;
(9) "any willing provider" regulations that limit the insurers' ability to choose services on the basis of quality and exclude other providers from payment;
(10) contract clauses that limit the ability of other insurers to enter a market;
(11) excessive insurance company profits; and
(12) government reimbursement programs that do not fully cover costs of their patients.

Consequences of High Health Insurance Premiums and Health Care Costs

Theresa Jolivette, representing the Indiana Chamber of Commerce, testified that the expense of health insurance premiums is making it difficult for employers to maintain existing jobs and to recruit new employers that may be considering locating in Indiana. Patricia Beyland of CSI Electronics in Kokomo reported that the cost increases associated with health insurance premiums were a primary factor in static wages and salaries. Russ Towner of DaimlerChrysler reported that health care is the single largest cost component of the company's products. He added that the increasing health care cost cannot be recouped by increasing the product price - they would not be competitive. Representative Crawford pointed out that DaimlerChrysler had reported paying more for employee health care benefits in Indiana than in other states and subsequently announced the closure of a major plant in Indianapolis.

Indianapolis-based hospitals testified regarding the growing burden of providing necessary health care services for the uninsured and medically indigent population in the state. Dan Evans, CEO of Methodist Hospital, reported that all general hospitals are affected by the growing numbers of the uninsured - not just public hospitals. When an emergency department is filled, mobile patients are diverted to other hospitals. Mr. Evans testified that hospital emergency services are provided with no regard for the patient's ability to pay. Consequently, access to expensive hospital emergency services is universal; the payment for the services is not. Bob Brody, CEO of St. Francis Hospital, reviewed the practice of cost-shifting within hospital pricing structures and the causes for the necessity to shift costs. Governmental reimbursement that does not fully cover the cost of the services provided is the cause of the need to shift the costs of publicly funded patients to the commercially insured and private-pay patients. This practice increases the cost of providing health care benefits to insurers and subsequently employers. Increasingly, the ability of the hospitals to shift costs has been limited due to insurers' demands for deep discounts, the increasing number of uninsured or underinsured individuals unable to pay for their care, and the growing practice of physicians diverting profitable product lines away from the general hospitals.

Mr. Evans added that hospitals are providers of health care, as well as employers, providing increasingly expensive health care benefits.

V. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Commission considered the following legislative recommendations.

PD 3426 extends reimbursement and assessment methodologies for Indiana Comprehensive Health Insurance Association policies. The Commission discussed the draft and determined that any action taken regarding the draft might be premature. No further action was taken on PD 3426.

PD 3425 prohibits certain provisions in health provider reimbursement contracts. The Commission heard testimony and discussed the draft. A motion was made and seconded for the Commission to recommend passage of this draft. The Commission voted 12-9 to support passage of the draft, however, recommendations of the Commission must receive the support of a majority of the voting members of the Commission, so the motion failed.

PD 3478 allows an accident and sickness insurer or a health maintenance organization to offer optional coverage that does not include mandated coverage. The draft requires an accident and sickness insurer or a health maintenance organization that provides the optional coverage on a group basis to provide individuals the opportunity to purchase supplemental mandated coverage. The Commission heard testimony and discussed the proposed draft. A motion was made and seconded to recommend passage of PD 3478. The Commission voted 8-13, failing to support passage of the draft.

PD 3512 creates the Indiana Home Health Agency and Hospice Council. The draft provides that the State Department of Health shall pay the Council's expenses. The draft also allows the Council to propose rules and act as an advisory body. Senator Miller announced that Pd 3512 would not be heard by the Commission due to lack of time. No further action was taken on PD 3512.

PD 3494 establishes a two-year moratorium on the construction of hospitals, ambulatory outpatient surgical centers, and health facilities. It also requires the Hospital Council and the Indiana Health Facilities Council to review certificate of need applications and allows the State Department of Health to establish fees for the application. The Chairperson heard testimony on PD 3494, but did not ask the Commission for a recommendation.

PD 3469 imposes a moratorium on the construction or addition of (1) comprehensive care beds; (2) ambulatory outpatient surgical centers; and (3) hospitals until June 30, 2006. Pd 3469 was discussed, but no further action was taken by the Commission.

The motion to adopt the final report with the inclusion of the October 30, 2003, meeting minutes and the vote record for preliminary drafts passed 17-0.

WITNESS LIST

July 23, 2003

Dan Evans, Jr., President and CEO, Methodist Hospital, Clarion Health, Indianapolis
Robert Brody, President and CEO, St. Francis Hospital and Health Center, Indianapolis
Joseph Loftus, representing the Health and Hospital Corporation of Marion County
Tim Kennedy, representing the Indiana Hospital and Health Association
Doug Stratton, Executive Director, Indiana Comprehensive Health Insurance Association

August 20, 2003

Douglas McKeag, M.D., M.S., Chairman, Indiana Arthritis Initiative
Zach Cattell, Legislative Liaison, Indiana State Department of Health
Robert Agronoff, Professor Emeritus, Indiana University,
School of Public and Environmental Affairs
Doug Beebe, Deputy Director, Bureau of Aging and In-Home Services, Family and Social
Services Administration

September 24, 2003

Theresa Jolivette, Indiana Chamber of Commerce
Patricia A. Beyland, CSI Electronics
John Raine, Raine Corporation
Steven R. Fero, Career Solutions Group, Inc.
Jason Shelley, National Federation of Independent Business
Ed Roberts, Indiana Manufacturers Association
Tamara Stanton, Insurance Institute of Indiana
Chris Schrader, Society for Human Resource Management
Marjorie Maginn, Anthem Insurance
Cindy Collier, Director, Policy, Planning and Communications,
Family and Social Services Administration
John Cardwell, Generations Project

October 2, 2003

Representative William Crawford
Zach Cattell, Legislative Liaison, Indiana State Department of Health
Dr. Michael Mirro, Indiana Chapter, American College of Cardiology
Dr. Kenyon Kopecky, Indiana Radiology Society
Tim Kennedy, representing the Indiana Hospital and Health Association
Ed Roberts, Indiana Manufacturers Association
Galinton Brian, Indiana Federation of Ambulatory Surgery Centers
David Hale, United Auto Workers
Russ Towner, DaimlerChrysler and Alliance of Automobile Manufacturers
Jim Zieba, Indiana State Medical Association
Kim Williams, Indiana Academy of Ophthalmology
Dr. David Wilson, Physician's Associate Group
Elizabeth Merchiers, Indiana State Medical Association
Marjorie Maginn, Anthem Insurance

October 30, 2003

Doug Stratton, Executive Director, Indiana Comprehensive Health Insurance Association
Dr. Gregory Wilson, Commissioner, Indiana State Department of Health
Cynthia D. Donovan, Deputy Commissioner, Financial Services Operations, Indiana Department of Insurance
Dr. David Wilson, Physician's Associate Group
John Willey, Anthem Insurance
Theresa Jolivette, Indiana Chamber of Commerce
Kim Stoneking, Association of Health Underwriters & Association of Insurance and Financial Advisors
Jason Shelley, National Federation of Independent Business
Charles Hiltunen, American Cancer Society & Indiana Orthopedics Society
Joy Long, Deputy Commissioner, Health, Indiana Department of Insurance
Jim Jones, Council of Community Mental Health Centers
Bruce Melchert, Clarian Health Partners
Faith Laird, Indiana Health Care Association
Vince McGowen, Americare
Jim Leich, Indiana Association of Homes & Services for the Aging
Zach Cattell, Legislative Liaison, Indiana State Department of Health
Lori Brokaw, Miss Duneland Scholarship Organization