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# Study of Proposed Mandatory Health Insurance for Pap Tests

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawaii

Submitted by

**THE AUDITOR**  
STATE OF HAWAII

Report No. 93-26  
December 1993

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## Foreword

Sections 23-51 and 23-52, Hawaii Revised Statutes, require the State Auditor to study the social and financial impact of measures that propose to mandate health insurance benefits. The purpose of these studies is to give the Legislature an objective basis for evaluating the merits of the proposals. As requested by House Concurrent Resolution No. 5, House Draft 1 of the Regular Session of 1993, we assessed the social and financial impact of mandating health insurance coverage for Pap tests.

We wish to express our appreciation for the cooperation and assistance of those state agencies, private insurers, and other interested organizations and individuals contacted during the course of the study.

Marion M. Higa  
State Auditor

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# Chapter 1

## Introduction

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Sections 23-51 and 23-52, Hawaii Revised Statutes, require the Legislature to pass concurrent resolutions requesting the State Auditor to study the social and financial effects of any proposed legislative measure that would mandate health insurance for specific services, diseases, or providers.

The law stems from legislative concern over the increasing number of these proposals in recent years and their impact on the cost and quality of health care. The purpose of the assessment is to provide the Legislature with an independent review of the social and financial consequences of each proposal.

House Concurrent Resolution No. 5, House Draft 1 of the Regular Session of 1993 requests the Auditor to assess the social and financial impacts of mandated health insurance coverage for Pap tests. However, the resolution did not designate any bill that delineates the mandated insurance coverage being proposed.

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## Background on Mandated Health Insurance

Since the 1960s, states have enacted a variety of laws mandating the health coverage that insurers must provide. These laws have required insurers to cover specific medical conditions and treatments, particular groups of people, and the services of certain health practitioners. As of 1992, state governments had enacted over 950 mandates, up from 343 in 1978.<sup>1</sup> However, the growth of mandated coverage appears to be slowing.<sup>2</sup>

## *Arguments for and against mandated health insurance*

Mandated health insurance may be appropriate in certain circumstances. However, proponents and opponents disagree about key issues: whether a particular coverage is necessary, whether it is justified by the demand, whether it will increase the costs of care and by how much, and whether it will increase premiums. Generally, providers and recipients of medical care support mandated health insurance, and businesses and insurers oppose it.

Proponents say gaps in existing coverage prevent people from obtaining the care they need. They believe the current system is not equitable because it does not cover all providers, medical conditions, or needed treatments and services. Proponents also argue that mandated coverage could increase competition and the number and variety of treatments available. In some instances it could also reduce costs by making preventive care, early treatment, or alternate care more available.

Opponents argue that mandated benefits add to the cost of employment and production and reduce other more vital benefits. They create particular hardship for small businesses that are less able to absorb rising premium costs. Opponents also argue that mandates reduce the freedom of employers, employees, and unions to choose the coverage they want. Insurers cite premium rates that may rise beyond what employers and consumers are willing to pay. They see mandates as creating an incentive for employers to adopt self-insurance plans that are exempt from the mandates.

### ***Types of insurance plans affected***

Laws to mandate health insurance in Hawaii would affect three main types of private insurance: (1) Blue Cross and Blue Shield plans, (2) health maintenance organizations (HMOs), and (3) commercial insurance plans.

The Hawaii Medical Service Association (HMSA), the Blue Cross and Blue Shield insurer in Hawaii, offers traditional fee-for-service plans (sometimes called indemnity plans) that reimburse physicians and hospitals for services. HMSA also operates a managed care system in which beneficiaries may obtain services from a network of designated providers. In addition, HMSA has an HMO that offers a package of preventive and treatment services for a fixed fee. With a 1992 membership of 623,074, HMSA covers about 56 percent of Hawaii's civilian population.<sup>3</sup>

Kaiser Foundation Health Plan is a federally qualified health maintenance organization. As of 1993, Kaiser served 189,026 people in Hawaii,<sup>4</sup> or about 16 percent of the population.

Commercial insurance plans such as HDS (Hawaii Dental Service) Medical, Island Care, and Straub Plan cover most of the remaining privately insured population. Some mainland companies, such as Travelers and Aetna, also provide health insurance coverage in Hawaii.

### ***Potential legal challenge***

Hawaii's Prepaid Health Care Act, enacted in 1974, requires employers to provide a qualified prepaid health care plan to regular employees working at least 20 hours per week. A qualified plan is one with benefits that are equal to, or a medically reasonable substitute for, the benefits provided by the plan with the largest number of subscribers in the state.

The federal courts have ruled that the Prepaid Health Care Act is preempted by the federal Employee Retirement Income Security Act (ERISA), which has a provision preempting state laws relating to employment benefit plans. A subsequent congressional amendment

exempted Hawaii's Prepaid Health Care Act from ERISA. The exemption, however, applies only to the law as it was enacted in 1974. In effect, this has frozen the law at its original provisions since ERISA would preempt any subsequent amendments. It is possible, therefore, that in Hawaii any mandated benefit laws could be viewed, and challenged, as bypassing the limitations placed on the Prepaid Health Care Act.

### ***Federal health reform proposal***

Health insurance reform is a pressing national issue. President Clinton recently delivered a proposed national Health Security Act to Congress. The proposed legislation contains a basic package of health benefits for all Americans. Significant health insurance reform based on this or other proposals is possible. It is too early to assess the impact of national developments, but they could preempt or otherwise affect state mandated health insurance laws.

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### **Background on Pap Tests**

The Pap smear, introduced in 1943, is a simple, painless and inexpensive test that can detect early cervical cancer and precancerous conditions. The Pap smear is done by a clinician who removes a sample of cells from the cervix and places them on a glass that is sent to a laboratory for evaluation. It is one of the most accurate and cost-effective medical tests to prevent cervical cancer. Approximately 90 percent of all cervical cancer deaths are thought to be preventable.<sup>5</sup> Nearly 7,000 women die each year from cervical cancer in the United States; most of them never had a Pap test.<sup>6</sup>

In January 1988, some of the leading national medical, professional, and scientific organizations announced agreement on guidelines for Pap tests. The guidelines state that all women who are or have been sexually active, or who have reached age 18, should have an annual Pap test and pelvic examination. A woman who has had three or more consecutive, satisfactory, and normal annual examinations may have the Pap test less frequently at the discretion of the woman and her clinician.<sup>7</sup>

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### **Current Proposal to Mandate Coverage**

As previously noted, House Concurrent Resolution No. 5, H.D. 1 did not designate any bill that delineated the mandated insurance benefits for Pap tests or identified which procedures associated with Pap tests (i.e., physician services, laboratory and reading fees) would be covered. We were unable, therefore, to determine which procedures or services should be considered for this study.

Those who testified on the resolution were generally in support of mandatory insurance coverage for Pap tests. The state Department of Health supported mandatory coverage even though it is concerned with piecemeal enactment of health insurance mandates. Support was also voiced by the Hawaii State Commission on the Status of Women.

The HMSA supported House Concurrent Resolution No. 5, H.D. 1 because Pap test coverage provides valuable protection for its members. Since the time HMSA testified, it began covering routine or screening Pap tests (effective October 1, 1993), as a part of its diagnostic and laboratory test coverage. This change applies to all HMSA medical plans.

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### **Mandated Coverage in Other States**

According to a report to Congress by the U.S. General Accounting Office, eight states mandate some form of coverage for Pap tests. Depending on the type of mandate there may be an effect on premium cost.<sup>8</sup>

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### **Objective of the Study**

The objective of our study was to describe the social and financial effects of mandating health insurance coverage for Pap tests.

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### **Scope and Methodology**

It is important to note that our study examined the impact of mandated *insurance coverage* for Pap tests and not the impact of the tests themselves. Our work was limited because little data is available on utilization and costs and no bill had been designated for us to study. (Such a bill should include, at a minimum, information identifying the specific health service, disease, or provider that will be covered; the extent of the coverage; the target groups that will be covered; limits on utilization, if any, and standards of care. Without this type of specific information, any assessment will be limited in usefulness.)

To the extent feasible, however, we considered the following issues set forth by the law:

#### ***Social impact***

1. Extent to which Pap tests are generally utilized by a significant portion of the population.
2. Extent to which insurance coverage for Pap tests is already generally available.

3. Extent to which the lack of coverage results in women being unable to obtain necessary treatment.
4. Extent to which the lack of coverage results in unreasonable financial hardship on women needing treatment.
5. Level of public demand for Pap tests.
6. Level of public demand for individual or group insurance coverage of Pap tests.
7. Level of interest of collective bargaining organizations in negotiating privately for this coverage.
8. Impact of providing coverage for Pap tests on health status, quality of care, practice patterns, provider competition, or related items.
9. Impact of indirect costs upon the costs and benefits of coverage.

### ***Financial impact***

1. Extent to which the insurance coverage would increase or decrease the cost of Pap tests.
2. Extent to which insurance coverage might increase the use of Pap tests.
3. Extent to which mandated Pap tests might serve as an alternative to more expensive treatment or services.
4. Extent to which insurance coverage of Pap tests might increase or decrease the insurance premiums or the administrative expenses of policyholders.
5. Impact of insurance coverage for Pap tests on the total cost of health care.

In carrying out the study, we reviewed and analyzed research literature and information obtained through interviews with commercial insurers, mutual benefit societies, health maintenance organizations, employer groups, collective bargaining organizations, professional associations, state agencies, and national experts.

Because we had no bill that defined what mandated coverage was being proposed, we used coverage of laboratory and reading fees as the basis for our assessment.

We did not test the data on coverage and utilization provided by HMSA, Kaiser, and other insurers. HDS Medical said it could not provide most of the information we requested.

Our work was performed from May 1993 through December 1993 in accordance with generally accepted government auditing standards.

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# Chapter 2

## Social and Financial Impact of Insurance Coverage for Pap Tests

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This chapter summarizes the results of our assessment of the potential social and financial impact of mandating health insurance coverage for Pap tests. The assessment is limited by inadequate data on insurance coverage for Pap tests and by the absence of a designated legislative proposal on which to base our assessment.

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### Social Impact

#### **1. Extent to which Pap tests are generally utilized by a significant portion of the population.**

A significant portion of the population uses the Pap test. A study by the U.S. Centers for Disease Control in 1988 found that 73 percent of women age 18 or older have had a Pap smear in the last three years. The American Cancer Society recommends that all women who are or have been sexually active, or have reached age 18, should have an annual Pap test and pelvic examination. After three or more consecutive satisfactory normal annual examinations, the Pap test may be performed less frequently at the discretion of the clinician.

In Hawaii, the Kaiser Foundation Health Plan reports an annual utilization rate of 56 percent for women age 20 to 85. In 1992, Kaiser's Pap test utilization rate was 557 procedures per 1,000 members age 20 to 85.

HMSA reports that it covered approximately 72,407 Pap tests in 1992 among its 230,268 female members between the ages of 15-79, a 31 percent utilization by that group of women. This utilization rate by HMSA members was prior to HMSA's inclusion of Pap test coverage in all of its medical plans effective October 1, 1993.

#### **2. Extent to which insurance coverage for Pap tests is already generally available.**

Insurance for Pap tests is available throughout Hawaii under the State's Medicaid and Medicare programs, the State Health Insurance Program (SHIP), federally qualified health maintenance organizations (HMOs) and, effective October 1, 1993, HMSA's various plans.

People who are members of federally qualified HMOs are covered for Pap tests as a routine preventive care service. The Kaiser Foundation Health Plan, the largest qualified HMO in Hawaii with 189,026 members, covers Pap tests.

Effective July 1, 1990, the Omnibus Reconciliation Act of 1989 extended Medicare coverage to Pap smear screening. Tests are reimbursable if a woman has not had a Medicare-covered test within three years. More frequent tests are permitted for women who are at high risk for cervical cancer.<sup>1</sup>

Effective October 1, 1993, HMSA provided insurance coverage for routine or screening Pap tests as part of its diagnostic and laboratory test coverage for all of its medical plans. Previously, when HMSA did not cover *routine* or screening Pap tests, physicians would categorize Pap tests as *diagnostic* so that the service would still be eligible for insurance coverage. Cognizant of this common practice, HMSA changed its policy to cover both routine and diagnostic Pap tests.

Some other fee-for-service organizations do not cover routine Pap tests. These organizations represent only a small portion of the insured population in Hawaii.

**3. Extent to which the lack of coverage results in women being unable to obtain necessary treatment.**

We found no information that women were unable to obtain Pap tests because of the lack of coverage. The Pap test is relatively inexpensive. However the cell sample taken by a physician or nurse during a physical examination can add substantially to the overall cost of the procedure. Some women may be unwilling or unable to pay for routine Pap tests and physical examinations that are not covered by their health insurance plans, but there is no data to confirm this.

**4. Extent to which the lack of coverage results in unreasonable financial hardship on women needing treatment.**

There is also no data to show any unreasonable financial hardship resulting from the lack of coverage. Most Hawaii residents have coverage for Pap tests. Prior to HMSA coverage of Pap tests, physicians would order Pap tests as diagnostic tests to obtain insurance coverage for their patient. Women were therefore receiving insurance coverage for the procedure even though Pap tests were not covered in HMSA's medical plans.

**5. Level of public demand for Pap tests.**

We have no data on level of public demand in Hawaii for Pap tests. Kaiser reports a utilization rate of 56 percent for its women members in 1992. If demand is equated with utilization, it may be reasonable to conclude that demand is probably high.

**6. Level of public demand for individual or group insurance coverage of Pap tests.**

Insurers report no demand for insurance coverage for Pap tests by their clients. They believe that coverage is already being extended to the majority of the population.

**7. Level of interest of collective bargaining organizations in negotiating privately for this coverage.**

A spokesman for a large union reported no inquiries from its members about adding Pap tests as a mandated insurance benefit. However, the union views Pap tests as a good benefit to mandate because the annual charge is not high and the consumer clearly benefits.

Another union representative indicated that once a year or less the union received inquiries about mandating coverage for Pap tests. More questions arise about the validity of Pap test results.

**8. Impact of providing coverage for Pap tests on health status, quality of care, practice patterns, provider competition, or related items.**

We found no information on the impact of coverage on health status, quality of care, and other items. It is possible that adding coverage would increase utilization of Pap tests. Pap smear screening, combined with appropriate treatment, is an effective method of reducing mortality and morbidity from cervical cancer. Pap tests are not very costly for the potential years of life saved, although they may not actually save health care costs for those women whose cancer is detected at a later stage.

**9. Impact of indirect costs upon the costs and benefits of coverage.**

Most cervical cancer occurs in women who have not reached menopause, but it strikes productive women of all ages. Extending life, reducing the need for lengthy and costly health care, and increasing productivity are potential benefits of Pap tests.

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## Financial Impact

### **1. Extent to which the insurance coverage would increase or decrease the cost of Pap tests.**

No data is available to suggest that the cost of Pap tests will be affected by mandatory insurance coverage. New federal restrictions passed in 1988 requiring all laboratories performing most medical tests on human tissue to obtain federal certification has caused the cost of Pap tests to soar. However, HMSA reports that its average reimbursements of Pap tests were \$10.39, \$12.33, and \$9.61 for 1990, 1991 and 1992, respectively. It has no explanation for the drop in the reimbursement rate in 1992.

### **2. Extent to which insurance coverage might increase the use of Pap tests.**

HMSA reports that in its HMO, which provides preventive care services, usage is 175 per 1,000 people over a three-year span. With mandatory insurance coverage, HMSA expects that some increase in use will occur because providers will have an incentive to treat Pap tests as a separate service and request separate reimbursement for each test.

### **3. Extent to which mandated Pap tests might serve as an alternative to more expensive treatment or services.**

If insurance coverage for Pap tests will increase utilization of these tests, more expensive treatment might be avoided. In Hawaii, about 100 new cases of cervical cancer and about 120 cases of endometrial cancer occur each year.<sup>2</sup>

In a study conducted in 1990 by the Department of Community Medicine, Mt. Sinai School of Medicine, and the U.S. Office of Technology Assessment, it was estimated that the cost of treating cervical cancer ranged from approximately \$430 to \$12,232, depending upon the stage and type of cancer being treated.

Pap tests can detect cervical cancer early enough to almost completely control the disease. Although the Pap test is not as accurate in detecting endometrial cancer as it is with cervical cancer, about 94 percent of endometrial cancer cases detected early can be cured. Therefore, the costs of treating these cancers are less if caught in the early stages.

**4. Extent to which insurance coverage of Pap tests might increase or decrease the insurance premiums or the administrative expenses of policyholders.**

Insurers do not expect any increases in insurance premiums or administrative costs because most are already covering the costs of Pap tests.

**5. Impact of insurance coverage for Pap tests on the total cost of health care.**

There is insufficient data to determine the impact of coverage for Pap tests on the total cost of health care. However, based on the low cost of Pap tests and the prevalence of existing coverage by HMOs, Medicare, SHIP, and some fee-for-service plans, it is not anticipated that it will increase the total cost of health care in Hawaii.

Insurance for Pap tests may reduce the total cost of health care if it increases utilization of these tests. This would result in earlier detection of cervical and endometrial cancers that could be treated with less expensive methods.

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## **Conclusion**

Because of insufficient data and the absence of a specific legislative proposal, we could assess only generally what the impact of mandated coverage of Pap tests might be. We conclude that mandated coverage is not necessary because Pap tests are already covered for the majority of the population, especially since HMSA changed its policy for all of its medical plans effective October 1, 1993.



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## Notes

### Chapter 1

1. Susan S. Laudicina, *Impact of State Basic Benefit Laws on the Uninsured*, Blue Cross and Blue Shield Association, December 1992, p. 1; and Jon R. Gabel and Gail A. Jensen, "The Price of State Mandated Benefits," *Inquiry*, vol. 26, Winter 1989, p. 420.
2. Susan S. Laudicina, *Impact of State Basic Benefit Laws*, p. 2.
3. Information provided by HMSA to the Office of the Auditor, November 17, 1993.
4. Letter to Jessica Hashimoto, Analyst, Office of the Auditor, from Francie Boland, Counsel, Kaiser Permanente, November 16, 1993.
5. U.S. Department of Health and Human Services, *Improving the Quality of Clinician Pap Smear Technique and Management, Client Pap Smear Education, and the Evaluation of Pap Smear Laboratory Testing*, September 1989, p.4.
6. *Ibid.*, p. 23.
7. *Ibid.*, p. 12.
8. U.S. General Accounting Office, *Access to Health Insurance*, GAO/HRD 92-90, pp. 27-28.

### Chapter 2

1. U.S. Congress, Office of Technology Assessment, *The Costs and Effectiveness of Cervical Cancer Screening in Elderly Women - Background Paper*, OTA-BP-H-65,, Washington, D.C., February 1990.
2. "Pap & Pelvic for Hawaii's Women," brochure published by the Cervical Cancer Screening Program and Community Cancer Program of Hawaii, in cooperation with the American Cancer Society, Hawaii Pacific Division.



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## Response of the Affected Agency

### Comments on Agency Response

We transmitted a draft of this report to the Department of Health on December 16, 1993. A copy of the transmittal letter to the department is included as Attachment 1. The response from the department is included as Attachment 2.

The department says that it is glad that HMSA has voluntarily included Pap smear coverage as of October 1, 1993. It contends that mandating coverage for Pap screening tests would assure a more complete level of service for all subscribers in Hawaii.

The department comments that we did not clearly address the social and financial impact of mandating health insurance coverage for Pap tests. Our report noted that our assessment was limited because of insufficient data and the absence of a specific legislative proposal. The department refers to House Bill No. 100 in 1993 that proposed mandated coverage. However, the legislative resolution requesting this study did not direct us to study House Bill No. 100.

ATTACHMENT 1

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917



MARION M. HIGA  
State Auditor  
(808) 587-0800  
FAX: (808) 587-0830

December 16, 1993

*COPY*

The Honorable John C. Lewin  
Director of Health  
Department of Health  
1250 Punchbowl Street  
Honolulu, Hawaii 96813

Dear Dr. Lewin:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Study of Proposed Mandatory Health Insurance for Pap Tests*. We ask that you telephone us by Monday, December 20, 1993, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, December 27, 1993.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

A handwritten signature in cursive script that reads "Marion M. Higa".

Marion M. Higa  
State Auditor

Enclosures

JOHN WAIHEE  
GOVERNOR OF HAWAII



JOHN C. LEWIN, M.D.  
DIRECTOR OF HEALTH

STATE OF HAWAII  
DEPARTMENT OF HEALTH

P. O. BOX 3378  
HONOLULU, HAWAII 96801

In reply, please refer to:  
File:

December 27, 1993

Mrs. Marion M. Higa  
State Auditor  
Office of the Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813-2917

RECEIVED  
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OFF. OF THE AUDITOR  
STATE OF HAWAII

Dear Mrs. Higa:

Subject: Report of the Legislative Auditor  
Study of Proposed Mandatory Health Insurance for  
Pap Tests

Herewith are our comments on the above study which was requested by the Legislature in its last session.

The legislative proposal for this mandated service (H.B. 100) was supported by the Department of Health; we also supported the resolution(s) for the Legislative Auditor to conduct this study. Our Family Planning Services Section provided a considerable amount of materials to be helpful to the study process.

We appreciate the opportunity to comment on the report of the study before it is released.

We are glad that HMSA has voluntarily included Pap Smear as of October 1, 1993. However, the social and financial impacts of mandating health insurance coverage was not clearly addressed in the report. The mandating of this Pap screening tests would assure a level of more complete service for all subscribers in Hawaii.

Thank you again for the opportunity to comment. I hope these points will be helpful as you prepare the final report for the Legislature in the coming session. Attached for your reference is H.B. 100 of which your staff may not have been aware.

Very truly yours,

  
JOHN C. LEWIN, M.D.  
Director of Health

Attachment