

HOUSE COMMITTEE ON INSURANCE
PUBLIC HEARING ON HB 2455
TESTIMONY OF SHARON WARD
PENNSYLVANIA BUDGET AND POLICY CENTER
MAY 4, 2010

Chairman DeLuca, Chairman Micozzi, members of the Insurance Committee. I am here today representing the Pennsylvania Health Access Network, a coalition of 50 organizations and hundreds of individuals working for affordable health insurance. PHAN members from across the state are in the audience today to urge you to preserve insurance coverage for more than 40,000 individuals enrolled in the adultBasic program.

During the past decade, affordable health insurance has been harder to find for many Pennsylvanians. Premium costs have increased well in excess of inflation and many employers have made the difficult decision to forego health insurance coverage altogether. In fact, Pennsylvania ranks second in the nation in the number of individuals who have lost coverage through an employer since 2001, falling behind only Michigan, and running well ahead of larger states like California and New York.¹ AdultBasic has filled the gap for tens of thousands of Pennsylvanians who have lost employment-based coverage, whose employers do not offer insurance coverage, or for whom that coverage is too expensive.

According to the Pennsylvania Department of Insurance 2008 survey, 8.2% of the Commonwealth's residents, more than 1 million, lacked health insurance, including 880,000 working age adults between 19 and 64², and that number has likely increased substantially as a result of the recession.

Over the past few years, the General Assembly has entertained a number of proposals to address the growth in the uninsured by expanding adultBasic and improving its benefit package. Our goal now is much more modest; please don't make matters worse by letting the program end. The General Assembly should take responsible steps to avoid adding further to the ranks of the uninsured.

The need for affordable insurance is as much a rural problem as an urban one. According to the Department of Insurance survey, residents of Pennsylvania's Northeast and North Central regions have the highest proportions of residents who are uninsured, 9.6% and 9.2%, well above the state average. 20% or more of the residents of Union, McKean and Bedford counties were uninsured in 2008. 17% of residents in Potter, Wayne and Susquehanna counties were uninsured, and the share of adults without insurance was the same in Jefferson and Venango counties as in Philadelphia County.³

¹ Pennsylvania Budget and Policy Center: Pennsylvanians Lose Health Insurance Faster than the Nation, 2009. <http://www.pennbpc.org/employer-healthcare>.

² Pennsylvania Health Access Network: A Snapshot of Pennsylvania's Uninsured, 2009. <http://www.pahealthaccess.org/sites/pahealthaccess.org/files/Snapshot-PA-uninsured.pdf>

³ Pennsylvania Department of Insurance, 2008 Pennsylvania Health Insurance Survey, page 60. http://www.portal.state.pa.us/portal/server.pt/community/health_insurance/9189/chip_uninsured_survey_information/621124

AdultBasic is a well-established program that serves uninsured individuals in every county in the Commonwealth. In April 2010, 40,617 Pennsylvanians were enrolled in the program, including 4,197 people in Allegheny County, 1,663 in Delaware County, 1,341 in Erie County, 5,919 in Philadelphia, 1,993 in Montgomery County and 1,831 in Westmoreland County. The program reaches into Pennsylvania's smallest and most rural counties serving 38 people respectively in Forest and Sullivan Counties. (See Attachment 1).

The program enrolls only a small percentage of the total population of working age adults, just one-half percent statewide, but the share is double that in 11 counties, including Bedford, Potter, Somerset, Clearfield, Susquehanna, Sullivan, Tioga, Fayette, Jefferson, Cambria and Armstrong.

AdultBasic is an important source of insurance for people who don't qualify for other public programs. This includes childless adults without a disability, who are not eligible for Medical Assistance, and working parents once they earn 25% of federal poverty level (FPL). AdultBasic is the only public program for individuals earning between 100% and 200% of FPL, the group most likely to be uninsured.

I can quote numbers and statistics, but to understand who the program serves, just look at the people who are caring for our parents and our children, or people who are in low-wage retail jobs where affordable insurance is hard to come by. These are the people caught in between—toiling every day but unable to make enough to afford insurance for themselves. They may have pre-existing conditions that make insurance all but impossible to find and too expensive on the individual market. Pennsylvania cannot turn its back on these individuals.

Let me take just a few minutes to share some of their stories with you. (See Attachment 2).

The Community Health Reinvestment Agreements are a reasonable and valid way to fund adultBasic, and we support legislation to require annual contributions until the federal coverage expansion takes effect in January 2014. A temporary six-month extension, as has been proposed by some, will only delay the problem without resolving it. The program should not be allowed to die a slow death of attrition. Given the existing budget deficit and the expected loss of \$2.7 billion in federal Recovery Act funds in July 2011, it is almost impossible to expect that there would be any General Fund dollars available to support adultBasic.

It is not uncommon for states to levy assessments on health insurance companies; many states do so to fund high-risk pools.

The proposed assessment is set at 2.4% of premiums, exclusive of Medicaid and Medicare premiums. This is not an unfair assessment, given the value of the tax exemptions enjoyed by the non-profit companies. The property tax exemption is particularly valuable as property taxes are by far the largest share of total tax payments for most corporations.

In this debate, it is important to remember that the Community Health Reinvestment Agreements were a response to the large surpluses built up by the non-profit Blue Cross/Blue Shield insurers in the late 1990s and early 2000s. These large surpluses occurred across much of the country and were condemned by policymakers and the public at large. As a result of the increase in profitability, Blues in some states sought approval to convert to for-profit operations and in several, including California, New York and Wisconsin, the assets were transferred to charitable foundations or directly to the state for health care services. At the time, Pennsylvania's approach, to assess the Blues and use the funds to subsidize insurance for adults, was considered an innovative alternative to for-profit conversions and a model for the country.⁴

The underlying issue of larger surpluses remains. Pennsylvania's Blue Cross providers are large, complex and highly profitable companies. They have continued to build reserves while paying the premium assessment required by the CHR since 2005. I draw your attention to Attachment 3, which looks at profit and surplus information for Independence Blue Cross and Highmark Blue Shield for the period 2004-2007. The Pennsylvania Budget and Policy Center compiled this information when the proposed merger between the two companies was being considered.

For example, Independence BlueCross operated 35 affiliated companies in three states. The non-profit company represents only a small share of the consolidated company earnings, for example in 2007, \$16 million of a \$172 million book of business. Net income per member per month for the non-profit company was \$14.65 in 2007, and IBC had \$1.5 billion in retained earnings on the non-profit side and a total \$1.7 billion surplus.

Highmark is a bigger company with 42 subsidiaries in several states and does a great share of business through its non-profits. Net income per member was lower than IBC but grew in 2007. Retained earnings on the non-profit side were \$3.5 billion in 2007 and \$3.9 billion for the consolidated company.

It is also important to remember that insurance companies will expand their customer base significantly as a result of federal health care reform and much of the new business will be from younger, healthier and less costly individuals. New regulations on insurance companies with respect to pre-existing conditions and rating are likely to benefit the Blues, who are currently insurers of last resort.

Expanding health insurance coverage reduces health care costs, provides stable funding for health clinics and hospitals, and most importantly, saves lives. Tens of thousands of Pennsylvanians are depending on you to preserve their health insurance coverage. HB 2455 provides a reasonable and responsible plan to do so and is fully consistent with the charitable obligations of the Commonwealth's non-profit insurers.

Thank you.

⁴ Carol Pryor and Katherine Dunham, "*The Pennsylvania Community Health Reinvestment Agreement*", Robert Wood Johnson Foundation, State Coverage Initiative. August 2006.