COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
APPROPRIATIONS COMMITTEE HEARING
BUDGET HEARING

STATE CAPITOL
MAJORITY CAUCUS ROOM
HARRISBURG, PENNSYLVANIA

TUESDAY, MARCH 4, 2008, 5:10 P.M.

VOLUME V OF V

PRESENTATION BY
OFFICE OF HEALTH CARE REFORM

BEFORE:
HONORABLE DWIGHT EVANS, CHAIRMAN
HONORABLE MARIO J. CIVERA, JR., CHAIRMAN
HONORABLE STEPHEN E. BARRAR
HONORABLE STEVEN W. CAPPELLI
HONORABLE H. SCOTT CONKLIN
HONORABLE CRAIG A. DALLY
HONORABLE GORDON R. DENLINGER
HONORABLE BRIAN ELLIS
HONORABLE DAN B. FRANKEL
HONORABLE JOHN T. GALLOWAY
HONORABLE WILLIAM F. KELLER
HONORABLE THADDEUS KIRKLAND
HONORABLE BRYAN R. LENTZ
HONORABLE KATHY M. MANDERINO
HONORABLE MICHAEL P. McGEEHAN
HONORABLE FRED McILHATTAN
HONORABLE DAVID R. MILLARD
HONORABLE RON MILLER
HONORABLE JOHN MYERS
HONORABLE CHERELLE PARKER
HONORABLE JOSEPH A. PETRARCA

BEFORE: (cont.'d)
HONORABLE SCOTT A. PETRI
HONORABLE SEAN M. RAMALEY
HONORABLE DAVE REED
HONORABLE DOUGLAS G. REICHLEY
HONORABLE DANTE SANTONI, JR.
HONORABLE MARIO M. SCAVELLO
HONORABLE JOSHUA D. SHAPIRO
HONORABLE JOHN SIPTROTH
HONORABLE MATTHEW SMITH
HONORABLE KATIE TRUE
HONORABLE GREGORY S. VITALI
HONORABLE DON WALKO
HONORABLE JAKE WHEATLEY, JR.

ALSO PRESENT:
MIRIAM FOX
EDWARD NOLAN

JEAN M. DAVIS, REPORTER
NOTARY PUBLIC

I N D E X

TESTIFIERS

CHAIRMAN EVANS: We're going to reconvene the Appropriations hearing.

Good afternoon to all of you. What we've been doing is having you come up and introduce yourselves for the record. The microphones are in front of you. And what we have been doing since we started the budget hearings is actually hearing about your reaction to the Governor's proposed talk about the budget.

Today we're talking about health care. As you know, the Governor has made that a top priority of this Administration. We want you to talk specifically about your circumstances.

So if you could please introduce yourselves and tell us where you are from.

MS. YETMAN: Roberta Yetman. I come from Erie, Pennsylvania.

MS. MICHAELS: My name is Laurie Michaels. I'm the owner of Laurie's Angels in Schuylkill Haven, Schuylkill County.

REVEREND COLDEN: My name is Reverend DonRico Colden, and I'm the Chaplain at Harrisburg Hospital here in Harrisburg.

MR. GROSS: My name is Phil Gross. I'm the CEO of Cars by Design in Lititz.

CHAIRMAN EVANS: Thank you. You may now begin with your statements.

MS. YETMAN: Mr. Chairman and members of the committee, I have to drive back to Erie as soon as we are finished. We're having a blizzard.

Thank you for this opportunity. As I said in my statement, my name is Roberta Yetman, and I'm from Erie, Pennsylvania. I am a college graduate, just to give you some background information, and I have dual degrees in education K through 12.

I've been with the U.S. Department of Defense for 15 years.

Let's see; I'm nervous. I also do volunteer work for the Council on Aging, which deals with issues for seniors, in conjunction with the State coalition to bring matters of health care to you and to the media and for the interests of the public.

My personal interest is that I'm the face of the uninsured. I also work hard, and I also face this every day in my job. I have to tell you that they cannot have the very minimum things, which is important for daily needs, because they can't afford health insurance.

I tried to get health insurance for myself. It would take about $250 a month to get a plan for

me, which is minimum, since I am where I no longer have to worry about pregnancy, but I would still have a $2,500 deductible.

Pretty much, you know, everything that could happen to me -- I don't smoke. I try to eat right. I try to stay as healthy as I can, because you have no other means of support.

If somebody should happen to have a catastrophe, you throw yourself on the mercy of the State, because there's no other recourse for the people that are the working poor.

So with this bill, I know that there are a lot of changes, but it's very important that you look at it and come to the conclusion sometimes that this is the best we can do now, and we need to take the step forward and do it, and then maybe we can talk, too, later on.

Thank you.

MR. GROSS: My name is Phil Gross. I'm currently uninsured.

I had a broken arm. I had been paying for health insurance, probably about $250 or more a month. I was paying the premium.

So I broke my arm and had medical bills. And when you go to check your policy, you find out

that nothing is covered, so the bill fell in my lap.

The reason I'm here is because I was unable to pay the bill, the debt, as I was starting a new business. What was so horrible and detrimental to my family was the fact that the hospital ruined my credit, and I was unable to then finance my business. I was trying to start a new business.

I'm here to talk about the fact that it's actually amazing to me that the hospital can ruin my credit. I had credit sores of over 700, 735, and it dropped down to 650. I was unable to finance the business because of a hospital bill and a broken arm.

So I'm looking for quality health care, I'm looking for people not to ruin my credit, because my insurance didn't cover what they said they were going to. And the Governor's proposal sounded like it made sense in that it paid for itself.

The other anomaly is that I gave my wife strict instructions never to give my Social Security number out, because we depend on my credit. The hospital obtained my Social Security number without my permission or anything else when we had been paying the bill.

I'd gladly pay $250 a month for protection

and for quality health care. I want to be in a position where I have no fear looking at my credit scores, because what hospitals are able to do to people is amazing.

In my business, if you buy a used car for $10,000 and I ruined your credit, I think you'd have a name for me, yet in the other industries it seems to be okay. I'm really, really struggling right now.

I think that's all I'm going to say. I welcome any questions.

MS. MICHAELS: I'm Laurie Michaels. I'm a long-term-care provider. I started my own business about 4 years ago to provide personal care for seniors and disabled people in Schuylkill, and I am doing very well.

Unfortunately, we don't make enough that we can pay for health insurance. We had a plan, and you think things are covered, and then it's like nothing is covered, so we stopped doing that plan.

So then we switched to another plan, which was a good plan, but it cost too much. The cost went through the roof. I have employees that can't afford insurance.

We try to pay high wages. We are the highest paid in our county. We're paying Medicare

and Social Security taxes. We're paying for supervisory staff. We're paying for on-call and have an 800 number. That all needs to come out of this little pot of money.

To come up with another 3-percent payroll tax puts us out of business basically. It's not enough to cover health insurance, not enough to cover training, not enough to cover recruitment issues.

I think that the State does need to do something to cover all Pennsylvanians.

Thank you.

REVEREND COLDEN: For the past 20 years, I have served families and patients and also staff at the hospital who have needed care. Of course, we do believe in holistic care. We do address the spiritual needs as well as the physical needs as well as other needs.

My concern is that we see so many patients showing up at the emergency room who are not insured or are underinsured. It's a lot of barriers to the quality of care that I believe all Pennsylvanians deserve.

One thing I think that happens is, we see an increase in the number of disparities among many people, especially minority populations. We see lots

of this. Nobody wants to care for people who can't afford to pay. And as people of faith, I believe that it's our obligation to see to that, that our neighbors are cared for, and that includes health insurance.

We believe that the Governor's CAP plan is a good one, because the number is moving in the wrong direction. Let's remove the roadblocks.

I'll close by saying that State and Federal government and religious groups should work together to share the responsibility in addressing health care that affects everyone.

Those are my comments. Thank you. I'm also open to any questions. I don't know if that's a part of the protocol.

CHAIRMAN EVANS: Thank you.

Representative Gordon Denlinger.

REPRESENTATIVE DENLINGER: Thank you, Mr. Chairman.

Mr. Gross, did you find the doctors to be helpful to patients? I don't know what hospital you were at. Was it Lancaster General?

MR. GROSS: Yes. It was a great hospital with great care; it was just bad circumstances. They did their best. I was starting a new business, and I

was unable to avail myself to that.

REPRESENTATIVE DENLINGER: What was the time frame from your medical needs until you actually found out you had credit impairments? What was that period of time? How long was that?

MR. GROSS: That's a good question. About 1 year.

REPRESENTATIVE DENLINGER: And was that in conjunction with other financial setbacks, from things other than medical?

MR. GROSS: My credit issues were mainly with medical.

REPRESENTATIVE DENLINGER: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN EVANS: Ms. Michaels, I would like to follow up a little bit.

How many people do you have working for you?

MS. MICHAELS: I have 60 employees.

CHAIRMAN EVANS: How long have you been in business?

MS. MICHAELS: Four years.

CHAIRMAN EVANS: None have health care?

MS. MICHAELS: Seven people did. Now it's down to four that still have it.

CHAIRMAN EVANS: I would like to hear a

little bit from you about what you think as far as the State. Walk me through what you think. I heard the pressures that you talked about.

MS. MICHAELS: I've heard of a couple of Pennsylvania plans that don't include a 3-percent payroll tax. We were short all the time. If there was a way to track workers in the Pennsylvania adultBasic program every day, just verifying employment, people would have no problem filling something like that out -- yes, this person does work; yes, they work a minimum amount of hours.

Most of my people don't have insurance and most people will not pay the copays because, unfortunately, they can go to the emergency room and get services.

They don't own a home. They don't own a car. They don't have a bank account. They don't have good credit short of taking their firstborn son, so there's not much you can do.

I would like to see a fast track into a program, and I would also like to see funding for education so they stop using the emergency room as a primary-care physician and start going to a primary-care physician for health-care services.

My children are grown. I never would have dreamed of taking my children to the emergency room. I called the pediatrician.

CHAIRMAN EVANS: Thank you.

Representative Barrar.

REPRESENTATIVE BARRAR: Thank you, Mr. Chairman.

Mr. Gross, can I ask one question?

MR. GROSS: Yes.

REPRESENTATIVE BARRAR: You said your health insurance wouldn't cover your broken arm?

MR. GROSS: It was the deductible per incident, you know, like when you pay for the first operation but not the second.

I'm working 70 hours a week. I don't know about all these things, so I am naive. I am very naive. I had a plan to pay $250, and hey, I'm doing my part but not getting the benefit of being covered.

REPRESENTATIVE BARRAR: Was it a work-related accident that caused the broken bone?

MR. GROSS: No.

REPRESENTATIVE BARRAR: Thank you.

Thank you, Mr. Chairman.

CHAIRMAN EVANS: One last question to the Chaplain.

Do you work with the Harrisburg Hospital?

REVEREND COLDEN: Yes.

CHAIRMAN EVANS: What types of people do you see?

REVEREND COLDEN: They come from every walk of life. They're rich, poor, black, white. Many of them bypass the emergency room door and come right to my office, so much so that I was accused of almost starting a cult or something.

It's very serious. They leave me messages 24 hours a day. I'm always being paged. It's nothing for people to go to the emergency room for all sorts of issues.

And I try to provide support, and all sorts of things happen. People who don't have health insurance will walk across the street to the square where they hand a pastor a prescription and say, can you pay for this? And that goes on all day long.

There are folks sleeping in the square. They're always waiting for the church doors to open at 6:30. In the evening, they spend the night with no food. They only have shelter at 6:30 in the morning, then they go back out on the streets.

CHAIRMAN EVANS: I would like to thank all of you for coming here today to put this in perspective.

What I'd like to do and the way we've been operating is having people introduce themselves for the record, and then we kind of get right into questions. Or unless there's something specifically you have to say, I may make a little change on the basis of things that you just heard, and you did hear what those people said.

Maybe you, in your own thinking, can kind of tell us, how do you think with what the Governor is proposing would address some of those things? You maybe can't address all of them, but it would be interesting to us, in some of the things that you have heard, how could some of those things be addressed under the Governor's proposed plan? That would be helpful.

So why don't we have people introduce themselves for the record, and then we'll kind of just start off with that first question that I asked.

ACTING COMMISSIONER ARIO: Joel Ario, Acting Insurance Commissioner.

DIRECTOR GRECO: Rosemarie Greco, Director of the Governor's Office of Health Care Reform.

SECRETARY MASCH: I'm Michael J. Masch, Secretary of the Budget.

SECRETARY RICHMAN: Estelle Richman, Secretary of the Department of Public Welfare.

CHAIRMAN EVANS: Do you want to start with the first question that I asked?

DIRECTOR GRECO: Sure.

Members of the committee, thank you for remaining to speak with us. And as Chairman Evans has told us, we don't have a prepared statement, but I'd be happy to respond to the comments that we all just heard.

In fact, in Prescription for Pennsylvania, the issues that are raised or were presented to you today are all addressed. Let me start with Phil and his issue about his credit being destroyed.

In Prescription for Pennsylvania, there are initiatives and regulations in draft process for uniform billing, admission criteria, protection for consumers to know from the outset in terms of what their insurance companies will pay for or not pay for.

Reverend Colden also commented on the fact that there are folks and there are indeed religious organizations who are trying to help in providing

care for the uninsured, as the Reverend noted, to take some of the burden away from the hospitals.

Well, in House Bill 700 we have and in our appropriations request we have requests for continued funding from 2007-2008 to provide care, particularly in underserved areas, underserved by any medical profession, be it physician or certified nurse practitioner, et cetera.

And I know that you've heard from Secretary Johnson, and most of the funds that we are asking to be appropriated for mobile clinics, to establish nurse-managed clinics, to give seed money to federally qualified health-care clinics, are in the Secretary's budget.

And Roberta, who talked about the fact that she is uninsured and in essence she is serving people who, whether they are insured or not, may not in fact have that particular benefit covered. And as you know, the Cover All Pennsylvanians proposal would apply to Roberta and hundreds of thousands of Robertas in Pennsylvania, making health care affordable, and depending on her income level, with a premium payment a month of anywhere from $10 to $70.

And then finally, Laurie Michaels. Now,

Laurie paints a picture that is all too real. Many of our low-wage earners work in the service industry, and the service industry that is particularly engaged with our elder citizens.

They do go to the doctor, but they go accompanying the elderly person or the person with disabilities whom they are aiding. They have no insurance, and they have really no means of acquiring insurance.

Some of them work a certain number of hours per week, and therefore, they are prohibited from, even if they could afford it, engaging in the employer-sponsored health care. Many of them work for more than one agency.

Actually, Laurie's point about the fact that many of those folks do receive government assistance, be it for housing or other kinds of subsidies, sort of makes the logic for us to consider focusing on those individuals, just as she raised it, as CAP, actually outreach to the long-term-care providers, as one of our primary groups to make sure that agencies such as Laurie's become aware of the CAP benefits and the CAP eligibility factor.

So with that said, I'll ask if any of my colleagues have anything else they'd like to add in

terms of their observations, Mr. Chairman.

Okay. Thank you.

CHAIRMAN EVANS: David Reed.

REPRESENTATIVE REED: Thank you very much, Mr. Chairman, and thank you all for appearing before the committee.

I guess, it is evening now. It has been a rather long day, especially for the Insurance Commissioner, who joined us a little bit earlier.

I'd like to revisit a discussion that you and I had last year, Director Greco, about crowd-outs and how that may occur under such an expansion. And when I look at your proposal, I see that your actuaries did not contemplate a crowd-out as a result of the Cover All Pennsylvanians, CAP, proposal.

Now, as I'm sure you are aware by now, the Hospital & Healthsystem Association of Pennsylvania engaged the Lewin Group, a rather notable actuary, to conduct a very similar study, and at a fully phased-in enrollment, the Lewin Group is estimating that 21 percent of the CAP enrollees would be the result of a crowd-out.

And for those unfamiliar with a crowd-out, a crowd-out basically is folks that today have private insurance coverage. Their employers decided to drop

that coverage because it is cheaper for them just to provide the State-provided program and pay the payroll tax.

Could you possibly comment on those two discrepancies?

DIRECTOR GRECO: I would be happy to, Representative.

The Lewin Group Report was commissioned by the Hospital Association of Pennsylvania, specifically to analyze Cover All Pennsylvanians as it was described in House Bill 700 and in other iterations during the past year.

We were presented, as you were, with a summary of their report, and Lewin raised some concerns, several concerns, about our enrollment projections, the fact that this was an entitlement program, and the issue that you raised in terms of crowd-out.

Well, in fact when we received the letter, we responded directly to the Hospital Association and pointed out that there were some errors in the Lewin Report, errors in their assumptions and errors in their understanding of what CAP was.

They factored CAP analysis as an entitlement program, and it is not an entitlement program. Just

like adultBasic, CAP will be funded on the basis of what legislative appropriation dollars we have, and when we get to the point, if in fact we do, if there are more people who want to enroll than we have money appropriated for, there will be a waiting list. The assumption that Lewin made was that it was an entitlement program.

Further, the enrollment projections, again, Lewin estimated that our enrollment projections were understated, and they looked to other States to point to as an example of that.

Pennsylvania's CAP program has no mandate. There is no mandate. We are not Massachusetts; we are not California, and we made corrections to that analysis as well.

In fact, we had asked the Hospital Association if it was possible for the Mercer consultants, whom we have used in this State for a long, long time and have depended on them for assessments of all of our State-funded rates, we asked whether or not Lewin consultants and Mercer consultants could meet prior to the broader distribution of the Lewin analysis. Unfortunately, the answer was no.

You have that analysis now, as do others.

You may also have a copy of the letter that I sent refuting the assertions that Lewin made.

The Hospital Association did engage the Lewin consultants in a conference call with the Mercer consultants. It occurred last week. And all of the conclusions that were listed in the original Lewin letter were adjusted by Lewin. They came to the conclusion that what we did and how we did it was more akin to the numbers that were acceptable to them.

They had two issues. One was crowd-out, and one was the number of uninsured, and we continue to disagree with those.

In fact, on the number of uninsured, our number is based on a 2004 survey. We also know that over the past 7 years, from 2000 to 2007, Pennsylvanians lost their employer-sponsored health-care insurance to the tune of well over 450,000 Pennsylvanians.

We're second only to California in the listing of States in terms of the largest number of dropped coverage for employer-sponsored health-care insurance.

So we don't disagree that there may be more uninsured, just as Lewin asserts. We are in the

process of conducting another survey that we will have from the Department of Insurance, and Acting Commissioner Ario may wish to comment on that. We will have preliminary numbers this month, but not numbers that are solid. We'll have to wait a couple more months for the results of that survey.

Nonetheless, it doesn't impact the costs that we are projecting or that we are asking appropriations for for the CAP program.

REPRESENTATIVE REED: Okay. Let's go back to the original question here for a second.

DIRECTOR GRECO: Crowd-out.

REPRESENTATIVE REED: Yes.

DIRECTOR GRECO: Okay.

REPRESENTATIVE REED: Last year when you testified before this committee, in response to questions that I had asked you very specifically, you had asserted that you did not believe that there would be crowd-out occurring as a result of the implementation of Cover All Pennsylvanians. Is that still your belief today?

DIRECTOR GRECO: My belief is, as we had stated to CMS, which is the Centers for Medicaid & Medicare Services, that we have good controls in place to avoid, or at the very least minimize,

crowd-out.

May I continue to explain why I believe that?

REPRESENTATIVE REED: Sure.

DIRECTOR GRECO: Okay. Thanks.

Pennsylvania has been recognized by the Centers for Medicaid & Medicare as being among the best, if not the best State in controlling crowd-out through its process of verifying employment, verifying income, in our adultBasic program, in our CHIP program, in our Cover All Kids program, in our MA program.

So they have a high confidence level in our ability to do the same with the biannual testing of everyone who is engaged in or enrolled in CAP for us to assure ourselves that the go-bare period in fact has been met, that if a person has dropped insurance, we will be able to discern why through the process of originally evaluating whether or not they were enrolled.

We have not had the experience in Pennsylvania with our CHIP or Cover All Kids program of crowd-out. The go-bare period is required by the Federal government for that particular purpose, to try to stem a tendency of individuals who will in

fact drop their insurance so that they can become eligible.

And I will have to say that I will repeat what I said last year, sir, and that is, I have a very high comfort level, as does CMS, with what we're doing with the history in Pennsylvania and what we're proposing.

REPRESENTATIVE REED: Okay. And that's when we start to get to what my actual question is.

I understand your very high comfort level, and I want to compare that comfort level to the comfort level of a leading expert on health care and economics policy.

Are you familiar with a gentleman by the name of Dr. Jonathan Gruber?

DIRECTOR GRECO: I'm not sure that I am. I read a lot, but I don't always remember who wrote what.

REPRESENTATIVE REED: I'll give you a brief synopsis.

DIRECTOR GRECO: Okay.

REPRESENTATIVE REED: Dr. Gruber is a nationally renowned health-care economist and a professor of economics at MIT.

DIRECTOR GRECO: Okay.

REPRESENTATIVE REED: In 1996, Modern Healthcare Magazine named him the 19th most powerful person in health care in the United States of America. He holds a Ph.D. from Harvard, and during the Clinton Administration, he was a Deputy Assistant Secretary for Economic Policy within the United States Treasury Department.

Dr. Gruber has recently published or co-published a paper entitled "Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Health Care Insurance?"

And what I want to do real quickly for you, since it appears as though you may not be familiar with that report -- and after the hearing, I'd be more than happy to provide you all with a copy of his report -- I want to read the abstract, and the abstract is only one paragraph long, but I think it's somewhat important for us to take a look at.

The abstract reads, "The continued interest in public insurance expansions as a means of covering the uninsured highlights the importance of estimates of crowd-out, or the extent to which such expansions reduce private insurance coverage.

"Ten years ago, Cutler and Gruber, in 1996, suggested that such crowd-out might be quite large,

but subsequent research has questioned this conclusion. We revisit this issue by using improved data estimates and incorporating the research that they have used over the years. We focus in particular on the public insurance expansions of the period 1996 to 2002.

"Our results clearly show that crowd-out is significant. The central tendency in our results is a crowd-out rate of about 60 percent. The finding emerges most strongly when we consider family-level measures of public insurance eligibility."

And this is the part that I really think that we need to take note of. They continue to say, "We also find that recent anti-crowd-out provisions in public expansions may have actually had the opposite effect, lowering take-up by the uninsured faster than they lower crowd-out of private insurance."

So what we have here is, we have assertions presented by the Administration and by yourself, and then we have a study done by a gentleman who is Harvard educated, an economist who teaches at MIT, served under the Clinton Administration -- not the Bush Administration, but the Clinton Administration -- and has been widely touted as a health-care

economics policy expert across the nation.

And I guess in the end the decision for this Legislature and for the public is, whose numbers do we believe?

DIRECTOR GRECO: That is the question.

REPRESENTATIVE REED: And I'm going to guess that---

SECRETARY MASCH: Representative, we'd be happy to see the study.

Obviously, since we haven't seen the study and we haven't done a comparative literature review to see whether there are other studies by equally eminent professors of public policy that might have drawn contrary conclusions, although even this abstract suggests that there are such studies, because this author is attempting to refute those findings from those other academics, you can't expect us to be able to comment intelligently on this study.

What we acknowledge is this: It's a serious issue. We should address it. The question is, what's the conclusion? Do we do nothing, or do we try to design a program which intelligently and strategically discourages crowd-out but still covers more of the uninsured in Pennsylvania?

What's the alternative? If the alternative is, for instance, to do nothing, we don't think that's a good alternative. If the alternative that's positive is -- we've heard other proposals which suggest that we should not attempt to focus on covering the uninsured but provide additional tax incentives to those employers who are already insuring. We don't find that to be an effective strategy to increase the number of people who were insured who are currently uninsured.

So that is the debate that we have to have, and we would be happy to see the article, and we would be happy to respond to all the members of this committee and give you our conclusions on it.

But I have to submit that, you know, I don't think that you can expect us to give you a really coherent and detailed answer when all we've got is that one paragraph. But we take the issue very seriously, and we'd be happy to engage with you on it and tell you what we think of the study and where we think it fits into the literature on this issue.

ACTING COMMISSIONER ARIO: And, Representative, if I can just add to that from the abstract that you read.

REPRESENTATIVE REED: Sure.

ACTING COMMISSIONER ARIO: I know Dr. Gruber is very associated with the Massachusetts experience, and as we talked about earlier, that's a different experience.

That's a focus study and probably relates to things that are different in two important respects: one, an entitlement rather than a program like this, which is not an entitlement; and two, a program that is associated with a mandate. And those two factors, if you talk to any actuary, they will tell you they are extremely significant factors in assessing a program.

So I agree entirely with what's been said here. We should take that study and look at it. Crowd-out is a very important issue. But I think we will find that the conclusions you're drawing from that study have to do with a different kind of program than what we have here in Pennsylvania, which is much closer to our own CHIP program where we do know the experience. We have not had the crowd-out issue.

REPRESENTATIVE REED: Well, and as I said before, we will certainly make that report available to each of your offices.

And I will even give you all the benefit of

the doubt that I don't believe that we'll hit the 60-percent number, but I am pretty certain that it is certainly not going to be zero, as Ms. Greco, in all due respect, that you had testified to us last year, that the Governor's numbers on the Cover All Pennsylvanians program assume that that number is zero.

And I think the alternative is not to do nothing; the alternative is that we must make sure that we are intellectually honest in the way we hold this debate. I recognize, once again, that the number is probably not 60 percent because of some of the provisions that you all have included within this program. But that number is not going to be zero, and we need to find out what the accurate number is so that the people of Pennsylvania, this Legislature, and the Administration can get our hands on the total ramifications of this proposal.

And again, like I said before, we will certainly make this report available to you all, and I would certainly appreciate any thoughts or comments you have on it after you've had a chance to read the report.

But thank you very much for your time, and thank you, Mr. Chairman, for giving me a little bit

of extra time.

SECRETARY MASCH: Mr. Chairman, if I could just add very briefly, I think it's really essential to recognize that the reason that the Governor proposed not just Cover All Pennsylvanians but all of the components of Prescription for Pennsylvania is that if we only do a program to cover the uninsured and we don't take serious steps to attempt to reduce the growth in health-care costs for all of those people that are paying for those who are already uninsured, we're going to see a reduction in the number of people who are insured even if we do nothing. We're not going to crowd them out. We're simply going to see a further reduction in coverage.

So chronic-care management, pay-for-performance, reducing hospital-acquired infections and medical errors, expanding scope of practice so that those health-care professionals who have been trained can practice to the maximum extent of their training -- all of those other measures which we have in the PowerPoint showing you that we're trying to make progress on have to be viewed as essential components of this plan, and the Cover All Pennsylvanians component should not be viewed in isolation.

We've got to hold down health-care costs and cover more of those who don't have affordable health care right now. And if we don't do the first, we'll never succeed in doing the second. That has been our view for the past year since we've been presenting this program and trying to implement it.

CHAIRMAN EVANS: I'm determined, as Chairman, to break the Guinness Book of Records of how long we can have an Appropriations hearing.

I'd say we go to 12 o'clock. I just said to the Chairman, we don't have anything to do---

SECRETARY RICHMAN: Do we have a 12 o'clock rule?

CHAIRMAN EVANS: No, not in the Appropriations. We're going to be here as long as we want.

So I want you all to take your time, be deliberate. I don't want anyone to rush. I don't have anywhere to go. I did the morning shift, so just take your time. I want you to have as much time as you want.

Representative Kathy Manderino.

CHAIRMAN EVANS: So take as much time as you want. I don't have anything to do tonight.

REPRESENTATIVE MANDERINO: Yeah.

Thanks for being here.

Let's talk a little bit about the waiver, Federal matching Medicaid dollars, how that fits into this proposal and what the view is from CMS in terms of how the money is going to work, so to speak.

DIRECTOR GRECO: Estelle will start, and we can all chime in.

SECRETARY RICHMAN: Okay.

First let me start with the definition of a "waiver." The word "waiver" gets thrown around a lot, and I'm not sure people understand that there are basically two major kinds of waivers that Pennsylvania has gone after to support our Medicaid program.

Most of our waivers are called 1915(b) waivers, and essentially what they're waiving is part of the Medicaid rules on statewideness or freedom of choice. And we have many waivers under this. In fact, Pennsylvania has 14 waivers, and we're going after 2 additional ones.

The waiver in question here is called an 1115 waiver as opposed to the 1915(b) waivers. An 1115 waiver is a research and demonstration waiver, and in these kinds of waivers, the essence of the request is to show budget neutrality. In other

words, given an inflation figure by the Feds, that we agree to hold down the costs on our total Medicaid spending to less than we're spending now given the inflation costs.

Typically, they don't go over 7 percent a year. So given what we're spending now, over 5 years -- in other words, the expansion or the limit of these waivers is 5 years -- that Pennsylvania will not spend more than what we're spending now plus the inflation costs.

To be able to do that, we need to show where we're shifting costs and how we're planning to establish this budget neutrality.

We're in discussion with the Feds. Usually what States do is have several conversations back and forth with the Medicaid folks and any other insurance folks, or the people who are going to be responsible for the program, to talk about how we're going to save dollars.

In Pennsylvania, we've talked about many things. One is how we handle our pharmacy, and we are rebidding our programs to be able to pull pharmacy off. That saves us a lot of money. Our estimate is over, in a full-time way, it saves us about $95 million. That's a lot towards budget

neutrality.

I think as Secretary Masch referenced, we are talking about getting better control over health care-acquired infections. As we do that -- and we passed the bill last year -- that will save us money.

You may be aware that we recently announced within the Medicaid program something that is technically called for us "preventable serious adverse events," otherwise known as "never events" in terms of, if we don't pay for those, that saves us money. We are backing out some of our disproportionate share, very slowly and after the first year. That will save us money.

So the goal is to come up with an agreement with CMS on how, over time, we're going to save money to establish budget neutrality. We aren't quite there. The conversations are continuing to go on. But I firmly believe that we can reach a point where both we and the Feds and the essence of what we want to do will reach that budget neutrality, and at that point, we'll submit our waiver.

REPRESENTATIVE MANDERINO: And that fits into Cover All Pennsylvanians how?

SECRETARY RICHMAN: Well, to be able to

expand our population from 100 percent of poverty to 200, 250, or 300 percent of poverty, we have to establish budget neutrality to get the waiver to get the flexibility to be able to do this.

REPRESENTATIVE MANDERINO: So then the additional Federal dollars---

SECRETARY RICHMAN: So we can get the match on the Federal dollars for those folks that are under 200, 250. I mean, we're still discussing what point that we're going to make the attachment point.

If the Feds let us go up to 350 percent of poverty, we can get match on that proportionately. If they let us go to 250 or 200 percent of poverty, we can get match on those dollars.

That's where you want your Federal waiver to be able to establish this research and demonstration project that has a point of 5 years.

REPRESENTATIVE MANDERINO: And doing that in combination with the State dollars you want to use from the Mcare surplus and the additional tobacco dollars and the current adultBasic dollars gets us a pot of money that you believe will be able to cover all Pennsylvanians in that category without doing the employer payroll surcharge, which was part of the initial proposal.

SECRETARY RICHMAN: That is correct. You have stated that clearly.

REPRESENTATIVE MANDERINO: Okay.

Holding down health-care costs. Secretary Masch mentioned that. I think that is absolutely a critical component, not only for Cover All Pennsylvanians but for all Pennsylvanians already covered by public or private insurance, and is really hand in glove kind of where our efforts need to be.

What additional -- I mean, we've done a lot already, but what additional things are you asking us to do this year, so to speak, to continue in that realm of the cost-containment issue?

DIRECTOR GRECO: Thank you, Representative Manderino, for your question.

You have all received a deck of slides, and I would like to just take you through the first -- just right to the first slide, after the cover slide. It's actually page 2.

Many of you have seen this slide before, because in fact it is one of the Governor's favorites. And so as he has traveled around the State, he points to the fact that the premium increases have grown from 2000 to 2006 at a 75.6-percent increase, and the inflation only 17, and

increase in median wages to 13.

We know that in Pennsylvania, we actually spend 11 percent more per person on health care. And early on when we had citizens from around the State and external consultants advising us on how best to control health-care costs, we determined that we needed, indeed, to just do as best as we could to follow the money: Where are we spending the money, and what can we do to spend less or contain the rate of growth?

If you go to the next page, this is another slide that should be familiar to you on page 3. In essence, when we introduced Prescription for Pennsylvania in January of 2007, we had data up to 2005. It was hard data that we could point to and count the numbers. And what we determined then was that at least in 2005, we spent $7.6 billion in health care that eventually finds its way into increases in insurance premiums as well as other factors, and that we needed to ensure that we were going to address these health-care cost drivers first.

REPRESENTATIVE MANDERINO: Can I stop you right there?

We have done the cost-driver readmissions

and errors. Legislatively we have done that, and you're now starting to implement that. Is that correct?

DIRECTOR GRECO: I would need to say that what we've actually done is the health-acquired infections legislation.

REPRESENTATIVE MANDERINO: Okay. So there's more to do in this category.

DIRECTOR GRECO: Yes, there is, and there is legislation in front of you, or will soon be in front of you, in terms of medical errors.

We have done what Secretary Richman referred to in terms of adverse events. We have the hospitals, nursing homes, and ambulatory-care centers having submitted their plan for implementation of control and bringing down hospital-acquired or health-acquired infections, as well as an incentive to be paid in that year.

REPRESENTATIVE MANDERINO: What about chronic-care hospitalizations? I know there has been some internal containment proposals within DPW's Medicaid program---

DIRECTOR GRECO: Right.

REPRESENTATIVE MANDERINO: ---but are there measures that you are asking us to do that deal with

chronic-care hospitalization in other aspects of insurance?

DIRECTOR GRECO: Yes, there are, Representative.

A lot of people think that because we are the third oldest State in the country, at least by age of our population, that we should expect to have more emergency room and hospital inpatient care for people who have chronic illnesses, because obviously they are exacerbated the older we get.

And in fact in Pennsylvania, 87,642 people die a year from these potentially avoidable chronic illnesses. Heart disease is the most common cause of death, diabetes is the second.

Actually, Pennsylvania ranks with the worst States in the country for the highest rate of avoidable hospitalizations for diabetes.

So when we look at increased costs for hospitalizations that are avoidable, increased visits to the emergency room that are avoidable, we began to look to see, how best can we cut the hospitalizations that are avoidable and how best can we improve wellness?

The Governor signed an Executive Order in May establishing a chronic-care management and a

Cost Containment and Reimbursement Commission. About 38 folks from around the State were a part of that commission. They were in all facets of medicine and insurance.

And they presented to the Governor and the Speaker of the House 2 weeks ago their chronic-care plan and proposals. Embedded in our budget request for 2008-2009 are some dollars to support that effort.

REPRESENTATIVE MANDERINO: Okay. So that doesn't need legislative action per se?

DIRECTOR GRECO: It needs appropriation only.

REPRESENTATIVE MANDERINO: And that is in the Governor's budget plans?

DIRECTOR GRECO: Yes.

REPRESENTATIVE MANDERINO: Great.

And obviously cost of the uninsured is trying to be addressed by what we are talking about today with the Cover All Pennsylvanians.

DIRECTOR GRECO: Correct; yes.

REPRESENTATIVE MANDERINO: Two other quick questions.

I just want to make clear that when Secretary Richman talked about the waiver, one of the

things that you didn't say specifically but I understand -- correct me if I am wrong -- is that when you are getting this waiver approval, one of the things that you are waiving or that at least is a misconception is that if it is Medicaid, it must be an entitlement, but it will not be an entitlement.

SECRETARY RICHMAN: It will not be an entitlement.

REPRESENTATIVE MANDERINO: Okay.

SECRETARY RICHMAN: It is there. It is not a requirement for it to be an entitlement. So this will not be -- we will not go after anything that looks or smells like an entitlement.

REPRESENTATIVE MANDERINO: Great.

My last thing is not so much a question but a comment.

I very much understand and appreciate the discussion and the consideration and the watching out for the whole crowd-out issue, but for me the bottom line is, do more Pennsylvanians have health-care coverage? And it's not worth worrying about the crowd-out issue if we do nothing and end up with more Pennsylvanians uninsured.

So I just want to say from my perspective, the balance in the end ought to be tipping towards

Pennsylvanians with health-care coverage.

Thank you, Mr. Chairman.

CHAIRMAN EVANS: Representative Douglas Reichley.

REPRESENTATIVE REICHLEY: Thank you, Mr. Chairman.

Thank you all for coming in today. It has been a long day for everybody. I don't want to belabor that, so I will try to get through the questions as expeditiously as possible. I'm sure everybody would appreciate the same on your part as well.

Ms. Greco, let me begin with you, and I say this not entirely facetiously, but do you believe that the production of gelato is part of providing health care in Philadelphia and in Pennsylvania?

DIRECTOR GRECO: The production of gelato as in the Italian sorbet, Representative?

REPRESENTATIVE REICHLEY: Exactly; a rich Italian frozen treat, yes.

DIRECTOR GRECO: No.

REPRESENTATIVE REICHLEY: The reason I asked is that I got a letter, which you are copied on, from December 7 from Barbara Holland, counsel of the Governor's Office of Health Care Reform, responding

to a letter that I sent on November 20 regarding the disposition of the MCP Hospital in Philadelphia that we have talked about in previous years.

Just to acquaint the rest of the committee with the letter, Attorney Holland wrote to me that there seems to have been some misunderstanding about the role of the Governor's Office of Health Care Reform and the nonprofit corporation WMCH, Inc. WMCH, Inc., was the nonprofit that I believe your office created to be able to assist with the disposition of the MCP Hospital in Philadelphia. Is that correct?

DIRECTOR GRECO: WMCH was not created by the Office of Health Care Reform. In fact what happened, and I think it is listed in the letter -- I sort of knew you might raise this, but I got lost on the gelato reference---

REPRESENTATIVE REICHLEY: I thought you might, too.

DIRECTOR GRECO: Well, in fact WMCH was created because of the concerns that we had about access to care with the sale, the proposed sale of MCP Hospital by the for-profit company Tenet---

REPRESENTATIVE REICHLEY: Right, and in November--- Excuse me. In the March 3, 2005, memo

that your office prepared for us, on page 6 of 7, it has highlighted as a bullet point that your office led the team that acquired the former MCP campus in Philadelphia; appraised value, $20 million; from Tenet Health Systems for $1.

Last February 20, 2007, your assistant, Ms. Anderson, identified herself as -- let me get this straight -- as the chair, and--- Oh, excuse me: "I was the chair and am the chair of the not-for-profit that was formed to hold the property." So your office was involved with that.

DIRECTOR GRECO: Representative Reichley, Susan Anderson was indeed engaged in exactly what you quote there and exactly as she testified.

This was not in her capacity as being the Deputy Director of the Office of Health Care Reform. This was an assignment given to her directly by Governor Rendell.

The Office of Health Care Reform helped the Governor, through Susan, by having her attend meetings, having her engage in outside counsel, to assist in determining what in fact was owed the State and the city of Philadelphia for the benefits that were previously given to Tenet when they first came into that area and bought the houses.

The Office of Health Care Reform has no responsibility for WMCH, has no alliance with the exception of the fact that there are people employed in the Office of Health Care Reform who have been appointed by the Governor to that board.

I know nothing nor do I care to know anything about the board meetings, the resources, the dollars, et cetera. So I guess that's why I don't know about the gelato.

REPRESENTATIVE REICHLEY: Well, let me try to inform you of that.

DIRECTOR GRECO: Okay.

REPRESENTATIVE REICHLEY: You are correct that Ms. Anderson was appointed by the Governor, because back on March 3 of 2005, you stated on page 34 that he dispatched a group of folks to talk with the Tenet people. He included the General Counsel and others from our office, Susan Anderson, the Deputy Director, and he named her the team leader in that effort.

Now, since that time we have had a situation where the government, State government, advanced certain sums -- I believe the Department of Public Welfare made certain advance payments to the hospital organization that took over there -- and back in the

2007 hearing, Ms. Anderson stated that in the disposition of this property for sale, one of the things we wanted to see happen on this site was that at least 100,000 square feet would be kept for health-care services within the East Falls area, and so that was a requirement that we put into the agreement of sale.

East Falls, that is where the Governor lives, right? Is that correct?

DIRECTOR GRECO: Yes, sir.

REPRESENTATIVE REICHLEY: All right.

So then in July of 2006, July 17 of 2006, there was an article in the Philadelphia Business Journal indicating that now this organization that Ms. Anderson, your assistant, was appointed to take charge of, was now selling that property to Iron Stone Real Estate Group for $11 million, after a quick 2-week settlement process. And on October 8 of 2007, Iron Stone Real Estate Group, again in the Philadelphia Business Journal, unveils its plan to not create a medical complex but to convert two of the buildings into 350 apartments, a fitness center, commercial space, 120 apartments for senior living, and a 3,500-square-foot gatehouse to be used by Capogiro as a gelato and coffee shop.

DIRECTOR GRECO: Ah.

REPRESENTATIVE REICHLEY: Now, can you explain to us how much money---

DIRECTOR GRECO: I can't, Representative Reichley. I have answered your questions in the past to the best of my ability.

The only thing I can say to you is that the outside counsel of WMCH, as is stated in the letter to you, which you received in December, is Frank Mayer. He has written to you and asked you to direct all of your questions to him. It is my understanding that---

REPRESENTATIVE REICHLEY: When did Mr. Mayer write to me, Mr. Greco?

DIRECTOR GRECO: I didn't see the letter. All I know---

REPRESENTATIVE REICHLEY: You're right, because there's not a letter.

DIRECTOR GRECO: Well, I am told that there is a letter.

But nonetheless, I still can't help you with the gelato or the building or the dollars.

REPRESENTATIVE REICHLEY: Well, maybe you can try to assist us in this regard.

DIRECTOR GRECO: All right.

REPRESENTATIVE REICHLEY: Well, let me first ask, is Ms. Anderson here?

DIRECTOR GRECO: No, she is not.

REPRESENTATIVE REICHLEY: That's a shame.

But I think that it is incumbent upon you to explain that if the property was sold for $11 million, how much of that came back to the Commonwealth? We are now in a situation, I believe, that $7 million was advanced from DPW to assist this property to continue to provide medical services in the Governor's backyard, and can you explain it as to how much State taxpayer money went into propping up this situation when 3 years down the road now there is no medical services? There are no medical services.

DIRECTOR GRECO: At the risk of repeating myself, Representative Reichley, I cannot help you.

REPRESENTATIVE REICHLEY: Is Ms. Holland here?

DIRECTOR GRECO: I cannot answer these questions.

REPRESENTATIVE REICHLEY: Is Attorney Holland here?

DIRECTOR GRECO: No, she is not.

REPRESENTATIVE REICHLEY: Is Ms. Torregrossa able to answer any of these questions?

DIRECTOR GRECO: No. She had nothing at all to do with any of this.

REPRESENTATIVE REICHLEY: Does anybody else up there at the table want to take a crack at this one?

DIRECTOR GRECO: Well, Attorney Mayer would, and perhaps he is the person you should speak with.

REPRESENTATIVE REICHLEY: And he's not here either, right?

DIRECTOR GRECO: No.

REPRESENTATIVE REICHLEY: Okay.

Secretary Richman, would you be able to comment whether DPW has been repaid this $7 million -- or is it $17 million?

SECRETARY RICHMAN: $7 million.

REPRESENTATIVE REICHLEY: The $7 million that you offered in advanced payments to the hospital center there?

SECRETARY RICHMAN: We did advance $7 million. We have not been repaid. However, we are actively legally pursuing this. We have filed in bankruptcy court. We are following up on all legal remedies, and it is still a very active case with my

law department.

So we are continuing to work with both the bankruptcy court and look at any other legal remedies we have to retain the taxpayers' money.

REPRESENTATIVE REICHLEY: This was also a property that contained, I believe, an appraised value of $25 million of medical equipment that was sold at auction. Do you know if DPW pursued the proceeds from that auction to be repaid the $7 million that you advanced?

SECRETARY RICHMAN: That is part of our filing, but because of the dollars we advanced to the hospital, we have no direct claim on the money out of the auction.

But again, we are actively pursuing all legal remedies to us, and we are aggressively doing that.

REPRESENTATIVE REICHLEY: This was a bankruptcy action that was filed, I think, a year ago when, Ms. Greco, you came before us last year. So this is now a 2-year-old bankruptcy action. Is that correct?

SECRETARY RICHMAN: I believe it is, but my experience is that bankruptcy actions can stretch over years as long as you stay active with them, and

they aren't necessarily resolved within the first couple of years.

My point is, we aren't dropping this. We are still staying active with it, and we aren't willing to take no for an answer.

REPRESENTATIVE REICHLEY: Well, I appreciate that, and if you might ask your department to inform Chairman Evans and the rest of the committee members the status of the bankruptcy action so we can ascertain when at some point we might learn about the chance for having that money repaid.

SECRETARY RICHMAN: We will supply the Chairman with all action to date from our legal department.

REPRESENTATIVE REICHLEY: Thank you.

Now, let me move to a more general question on Cover all Pennsylvanians, and I'll open it up to any of the members of the panel that want to answer this.

Do I understand it that at this point, you are estimating that the premium for coverage under Cover All Pennsylvanians would be $286 per month? Is that correct?

SECRETARY MASCH: That's correct.

REPRESENTATIVE REICHLEY: And would it also

be correct to state that the premium being charged for the adultBasic plan at this time is roughly $350 a month?

SECRETARY MASCH: $308.

ACTING COMMISSIONER ARIO: That premium varies by provider, and it varies between $235 and about $350.

REPRESENTATIVE REICHLEY: Okay.

ACTING COMMISSIONER ARIO: So the 286 number is somewhere roughly in the middle of the current range of charges under the adultBasic program.

SECRETARY MASCH: Yeah. Joel, I have a weighted average of 308 as the current number.

ACTING COMMISSIONER ARIO: Okay.

REPRESENTATIVE REICHLEY: Okay; 308. Let's just take that number.

Do I take it as well that the coverage under Cover All Pennsylvanians is going to be more extensive, or some people would say more generous, than is provided under the adultBasic plan?

ACTING COMMISSIONER ARIO: It will have additional coverages that may turn out to make it a smarter buy and a more cost efficient buy.

REPRESENTATIVE REICHLEY: Okay. But there are more elements to the coverage than are presently

available under adultBasic. Is that correct?

SECRETARY MASCH: Right.

ACTING COMMISSIONER ARIO: It includes prescription drug benefit and behavioral health benefits, both of which have been shown in various studies to potentially save overall costs on a health plan.

REPRESENTATIVE REICHLEY: Then I guess the question is, if you are putting more elements of the coverage into the benefit under Cover All Pennsylvanians but the premium seems to be lower than what they are charging for adultBasic, which has fewer components to it, how does that work?

ACTING COMMISSIONER ARIO: Well, it is familiar in the health-care world for people who look at health care that oftentimes more doesn't mean better. In fact, oftentimes more services means less quality service.

So it is not a simple equation of every time somebody gets a new and different service, they get a better quality product. In fact, sometimes spending money on the front end to avoid other services on the back end is quite cost efficient, and that is part of what goes into, I think, making these estimates.

REPRESENTATIVE REICHLEY: I just want to make sure that I didn't misunderstand you. Did you say more services equals less quality?

ACTING COMMISSIONER ARIO: I'm saying that it is not always the case that providing less service means worse quality. Sometimes less service means better quality; sometimes more services doesn't improve quality. There is not a direct relationship between the two, and that is part of what is factored into the thinking about this particular program.

SECRETARY MASCH: Right.

Representative, if I could add, I think those of us who have looked at adultBasic are struck by how high a percentage of the costs are attributable to inpatient hospitalization services, and that is clearly a combination of two things: the fact that this plan design does not have wellness and preventive and prescription drug treatment, and also because of the relatively small population, we have a higher than average adverse selection in terms of the population served.

So the actuaries that we have engaged have indicated to us, and this is not surprising, that as we serve a larger pool, which includes relatively healthier participants, the average costs, and

therefore the average premium, can go down, and in fact it is not all that much. And we have the fact that, for instance, in prescription drug coverage, if we qualify for the Federal reimbursement, we also qualify for mandated discounts on pharmaceutical purchases that are eligible to us under Federal law, so we get a double benefit.

We are able to provide a service that once we add ongoing care, including the availability of prescription drugs, we reduce the likelihood that inpatient hospitalization is going to be needed, and we get that at a very favorable price.

So it is not surprising -- as we have noted, the difference between the CAP premium at $286 and adultBasic at $308 is not, you know, is not that big a gulf, but the reason why the actuaries have given us that number is because of the change in the demographics and the utilization of the pool and the change in the plan design, which enables us to offer preventive services that cost less.

That's the whole point of, for instance, chronic-care management, is to reduce those inpatient hospitalization costs by providing relatively less expensive services that avoid the hospitalization.

REPRESENTATIVE REICHLEY: And by the less expensive services, I take it you mean the prescription drugs primarily. Is that correct?

SECRETARY MASCH: Well, no.

ACTING COMMISSIONER ARIO: No, the behavioral health.

SECRETARY MASCH: I think it is case management and behavioral care management as well. Sure.

REPRESENTATIVE REICHLEY: The behavioral health. Okay.

ACTING COMMISSIONER ARIO: Representative, let me add one other point here, because this is important for this program---

CHAIRMAN EVANS: Excuse me; slow down. For the sake of the recorder, you know, we'll have to--- Don't worry; Representative Reichley is not going anywhere. You can take your time.

REPRESENTATIVE REICHLEY: I guess I don't have dinner plans. Okay. Thank you very much.

ACTING COMMISSIONER ARIO: This is an important part of this, too. The proof will be in the pudding here as to the price, because the way the program works is that this is the actual estimate of what it will be.

When the program is passed, then there will be a bidding process by the private market. This product is going to be delivered by the carriers that we regulate.

The Blues have to bid, but they don't have to bid at any particular price. They determine what price to bid at in order for them to make money. And guess what? They are going to bid at a price that they think they can make money at. Other people can bid, too, and if no one bids at the $286 price, then something will have to change in the program.

Now, Mercer has a good track record -- Estelle can speak to this with DPW -- at estimating actuarial costs. I believe that the carriers will bid around this price and that they will make money at this price.

But at the end of the day, this will be tested in the marketplace, and if nobody in the private market can deliver this benefit package at that price, then the program will have to change. That is how it is set up.

REPRESENTATIVE REICHLEY: And I appreciate that. Let me just respond to comments that you actually just made, Commissioner.

I think some of the confusion is the fact

that in the materials provided at last year's hearing, in an earlier actuarial letter from Mercer, dated February 26, 2007, there the estimated per month premium was $283 and did not include behavioral health services as part of the CAP benefit. Now a year later, you are adding in prescription, you are adding in behavioral health services, and your premium is only going up $3. So a lot of us are curious as to how you are doing that.

And when you state that the Blues obviously are bidding on this at a rate to make a profit, are they making a profit now on adultBasic?

ACTING COMMISSIONER ARIO: Representative Reichley, yes, some of them are and some of them aren't in any given year. Last year, two out of the three that offered adultBasic did make profits, one did not.

REPRESENTATIVE REICHLEY: Which ones did and which ones did not?

ACTING COMMISSIONER ARIO: I believe it was IBC that did not, but I'm not positive. Capital does not offer it. I believe NEPA and Highmark were the ones that made a profit on adultBasic last year. But I will make sure that is correct for you.

REPRESENTATIVE REICHLEY: All right. I

appreciate that.

Lastly, and this will be the last question, I'm just trying to make sure I completely understand this, and, Secretary Richman, you directed your response to Representative Manderino on this.

You stated this is not an entitlement program.

SECRETARY RICHMAN: That is correct.

REPRESENTATIVE REICHLEY: And it would seem that if you are increasing the income limit over the Federal poverty line---

SECRETARY RICHMAN: Right.

REPRESENTATIVE REICHLEY: ---to be able to draw down more Federal dollars---

SECRETARY RICHMAN: For that population.

REPRESENTATIVE REICHLEY: Right. How is this not becoming an entitlement? Is there a certain segment of the population to which you are not going to be entitled to Federal draw-down dollars, and therefore you say that they are not in an entitlement population?

SECRETARY RICHMAN: I mean, we can, when we write the waiver, we can say this is not an entitlement, that we can only serve to the extent of the dollars we have available. That takes it out of

the entitlement range. As opposed to the Medicaid program that is an entitlement and you have to serve anybody who income qualifies.

This one, the waiver gives us the right to discriminate, per se, around who we can serve and who we can't serve to the limit of our dollars.

SECRETARY MASCH: Right. But, Representative, everybody will have to be eligible; that is, they will have to have an income adjusted for family size that is below whatever the Federal poverty level cutoff is. But that doesn't mean that we will necessarily be able to serve in this current model with the funding currently available every person who is potentially eligible.

But our experience with programs like CHIP and adultBasic indicate to us that not every person who is eligible is going to present themselves and seek the coverage, which is why we are not proposing a mandate and we are not proposing the entitlement.

What we think we do here is get those people who are most in need of the coverage and will receive the greatest benefit from signing up. Those are the people who are going to come first and seek to be covered.

SECRETARY RICHMAN: Just to also add to that, some of you painfully know that we have many waivers, one of them being the consolidated waiver under mental retardation. We have an extensive waiting list. We can only serve to the limit of the dollars we have available, or to the slots we have available, and when we can't, we run a waiting list. This will be very similar.

Again, it is a waiver. It happens to be a 1915(b) rather than an 1115 waiver. We, again, add slots or money to it every year. That is not enough to serve the entire waiting list. We take as many people off that waiting list as we can and we continue.

You have to meet the stipulations of eligibility, and then we have to have the money to provide the service.

REPRESENTATIVE REICHLEY: Here is my last question.

Do I take it then that if you are establishing the benefit under CAP at the same criteria for Medicaid, that you have received a letter from CMS at this point that says that providing the health-care benefit to people above our certain qualification level will decertify or not

regard the entire program as an entitlement?

SECRETARY RICHMAN: Well, no. Right now, that is the negotiation we are in with CMS, discussing exactly what the language will be in our waiver.

When you do this prior to submitting the waiver, then when you submit the waiver, you get it through a lot faster.

REPRESENTATIVE REICHLEY: What if you don't get the waiver?

SECRETARY RICHMAN: If we don't get the waiver?

REPRESENTATIVE REICHLEY: Right.

SECRETARY RICHMAN: Then we have to be at the Medicaid level.

But the Feds are approving these waivers. What they do is work with you to get the right language, because their interest in this, incidentally, is holding constant the Medicaid costs at the Federal level. So they are very interested in reducing their costs, or at least having it predictable. Therefore, they are working with the States, and there are several States who have or are working with them on these levels of waivers to contain Medicaid costs across the country.

REPRESENTATIVE REICHLEY: Okay. And I understand it is not California and it is not Massachusetts.

SECRETARY RICHMAN: Right.

REPRESENTATIVE REICHLEY: What other States have received a waiver for a similar health-care benefit as you are proposing?

SECRETARY RICHMAN: I believe that Michigan is close on its way to receiving a waiver. They might have received theirs by now. I believe Ohio is in the process of negotiating a waiver.

So there are about five of us, I believe, that are in the pipeline. If you would like, I can get you the status of all of those State waivers and how they may differ some from ours.

REPRESENTATIVE REICHLEY: Yeah; that would be very helpful.

SECRETARY RICHMAN: Because every State waiver at this point is slightly different. No State is going after the same way, in the same type, on the same population.

REPRESENTATIVE REICHLEY: And based upon Chairman Evans's statement that we are going to be voting on this next week, would you be able to get that to us as soon as possible so we can have a clear

understanding if there is another model out there that has been granted a waiver from the Federal government?

SECRETARY RICHMAN: Okay. We will get that.

REPRESENTATIVE REICHLEY: Thank you, Secretary.

Thank you, Mr. Chairman.

CHAIRMAN EVANS: We are going to take a 10-minute recess for the sake of the stenographer, so we can protect her health care, and then Cherelle Parker is next on the agenda.

But I don't want anybody to leave the room. We've been here all day. Don't leave the room.

SECRETARY MASCH: Are you treating us all to dinner in the meantime?

(A recess was taken.)

CHAIRMAN EVANS: I would like to reconvene the meeting. I would like to reconvene the House Appropriations Committee meeting.

That means we can charge ahead for the next 6 hours, Mr. Chairman.

CHAIRMAN CIVERA: You're going to be here by yourself.

CHAIRMAN EVANS: Mr. Chairman, the Secretary of Public Welfare said she will be here at 9 o'clock,

so we just wanted to save a little time for tomorrow morning.

CHAIRMAN CIVERA: You are on your own.

CHAIRMAN EVANS: The next person is Representative Cherelle Parker.

REPRESENTATIVE PARKER: Thank you, Mr. Chair, and I will try not to prolong this.

Good evening to each of you, and thank you for being here.

I just want to start with Secretary Richman.

Secretary Richman, in response to questions posed by Representative Manderino and Representative Reichley, you emphatically disclosed that, you know, this is not a mandate and/or an entitlement, and in your response I thought about a question that I posed earlier that of course we all know, because you have explained it to us, but sometimes the public is not really clear about it to our Insurance Department, and that is, display the population of approximately 870,000 Pennsylvanians who are uninsured, and please clarify for the record that these individuals are not individuals who are sitting at home twiddling their thumbs waiting for government to take care of their families, but in fact a large percentage of them actually work, and they work with some of our most

important employers, and those are our small businesses. So talk about that population for me, and I have two more follow-up questions.

SECRETARY RICHMAN: The population that is uninsured -- and I think that someone probably has the number -- 70 percent of them are people who are working, 71 percent are people who are employed.

These are our working poor. I think one of the young ladies sitting here, or two of them actually, were working and employed. Their employer did not offer insurance or offered insurance at such a high copay that they did not feel they could afford it. Seventy-six percent of the people who are uninsured have incomes less than $60,000 for a family of four. So these people are people who work very hard.

I think the gentleman on the end with his own business said he works 70 hours a week, and he also didn't have health insurance. Twenty-seven percent of this population have been without health coverage for more than 5 years, so this is something that is chronic at the same time, and they are also between the ages of 35 and 65. Incidentally, this is on page 26 of your handout, so I am not doing this by memory. And 70 percent of them list cost as a reason

for not having health insurance.

A portion, as you heard, again from one of the young ladies, they actually work in an area of health care. Many of them work in an area where they are probably paid by dollars that are derived from many of the departments within, offices within Public Welfare -- home health care, a residential worker in a community living arrangement, attendant care.

So many of these folks are indeed working. They are supporting their families. They are trying to contribute to the tax base of the Commonwealth. They are taxpayers, and it just so happens that the job they have does not extend to them to have health insurance, and part of what they want is options that they feel they can afford.

REPRESENTATIVE PARKER: Affordability. Now, with that in mind, let's talk about the impact that it actually has on the small business owner.

It is really interesting, when I talk with small business owners in my district who, let's say, have 25 to 30 employees, they often state that they would like to be able to afford to offer comprehensive health-care insurance to their employees at a very affordable rate, but here in your presentation you note that Pennsylvania is only two

States that don't limit the rating factors that companies use to determine the rates for small groups, and that is often a challenge to the small business owner. Can you talk about that in the new role that the Insurance Department would have?

SECRETARY RICHMAN: Okay. Let me turn that back over to either Director Greco or to Commissioner Ario.

ACTING COMMISSIONER ARIO: Thank you, and thank you for that question, Representative.

We at the Insurance Department do strongly support reform of the small group market for exactly the reason you say. We you get down to the groups of 25 or even less, you have many problems with stability and predictability of rates.

At the high end of group size, the large employers, they all provide health care. Wal-Mart stood out for awhile as the only large employer that didn't provide health care. But as you go down the list into the smaller groups, it gets harder and harder to do, and one of the major reasons for that is that in a group say of 10 or 5, one person has a health episode, a major health episode, and it has a dramatic impact on the group.

We heard testimony across the State from groups just like that, from small businesses, where they said, gee, we don't know what to do, because we have got an employee that has a health problem; we're certainly not going to let the person go, but it is really affecting our rates, and it even enters into the decisionmaking about new employees.

We have got young employees here, and now we have got a new prospective employee who is a little bit older, and, you know, we would like to hire this person on their merits, but, you know, it will affect our health care, because older workers are more expensive for health care.

So what we need to do in this small group market is essentially make it perform like the large group market. So you take all of the small groups together and make them one large pool, and then it will function -- it won't solve all the problems. Large employers still have issues with affordability, but it does solve the stability and predictability problem. And there is a reason why 48 States in the country have gone to this kind of reform. We need to do this in Pennsylvania.

DIRECTOR GRECO: I just want to piggyback on the Commissioner's comments.

In your deck of slides, all of the insurance reforms that are embedded in Rx for PA and House Bill 700 are listed, and I'm sorry that Representative Reed isn't here, but I'll send him a follow-up on this.

I'm sure that in my testimony last year, and just as I testified today, the factors of small group reform are what is going to enable small employers to afford insurance even if they do not qualify for CAP.

For example, you heard the Commissioner note that in hiring an older person, you could see a rate spike. In hiring women of childbearing age, you will see rate spikes. And part of the reform that we have in front of the Legislature is to ensure that small businesses are protected from that kind of spike on an annual basis, even in fact if there are no medical claims, but you change the profile, the demographics, of the people that you employ.

The crowd-out provision, coming back to Representative Reed, crowd-out will be, again, impacted in Pennsylvania by the fact that small businesses will be able, if in fact the Legislature approves to give power and authority to the Commissioner, to require every insurance company that

writes in Pennsylvania to offer a program, a similar benefit package to CAP, to price it so that small employers will be able to look at each of the packages and determine who is giving them the best price, and also have the option of adding riders to that package, like better vision care or more hospital visits, et cetera.

So small employers will have an option even if they don't qualify for CAP, which will mitigate the need for them to try to play the system and drop coverage for 6 months for their employees.

REPRESENTATIVE PARKER: And my final question, and I'm not sure if this will be for you, Secretary Masch, you know, in talking about the Prescription for Pennsylvania and just covering more of that 870,000 population that you all mentioned, aside from it being just sound, good moral policy that we should be interested in making sure that more of our citizens have health insurance and that it is affordable, can you talk just a little bit why it is just good public policy? And it is healthy for the fiscal stability of our Commonwealth, and it is also a preventive way, if we implement this plan, to help us save money because of the costs, the rising costs that our emergency units are facing across the

Commonwealth with those who are on those long waiting lists to get into adultBasic.

There were a few people who mentioned earlier, well, if we had this many people on the waiting list, why do we have so few people who actually enroll? And I thought the Insurance Department did an excellent job in explaining that between the time that someone applies for adultBasic and when they actually realize that there is a spot and they can get accepted, a lot of things have changed, and lots of times that could mean that whatever the health problem that they had, they actually took care of it in an emergency room. So they had it addressed in a crisis manner versus care that they could use if they had affordable health care.

So why is this good, sound fiscal policy?

SECRETARY MASCH: Well, yes, Representative, but our argument here is that it is better to provide ongoing preventive care that focuses on wellness, that focuses on healthy lifestyles, and that focuses on prevention, because the most expensive care is hospitalization, and a very significant portion of the hospitalizations that we are paying for, we are paying for them ultimately somewhere in the system

now. Those costs are being passed on in all the other insurance that everyone else is paying. So our goal is to provide care on an ongoing basis, not an episodic basis, and to change the kind of care we provide.

Look, this Commonwealth, and in particular this General Assembly, is to be commended for creating the adultBasic program. The adultBasic program added a level of coverage for a group of Pennsylvanians above the medical assistance layer. It was a step in the right direction. It was adopted by the prior Administration and by the General Assembly during the prior Administration.

It was a step in the right direction, but we can take additional and further steps, and every one of those steps, we think, is a step towards making progress to control health-care costs for everyone.

And as you note, for those people who receive the care, it's an improvement in their lives as well, not just because they will get taken care of in the hospital when a condition gets so bad that there is no alternative but to go to the emergency room, but the best thing that we can do is to provide health care on an ongoing basis where the treatment and the changes in lifestyle that we are encouraging,

and I want to note, we are encouraging these changes in the medical assistance program and in our employee benefits trust fund program for State employees and their families. These are changes that in the health-care reform we are advocating we want to make in all programs. But this is a set of people who have not had any of those benefits before, and they would now have access to them. That would be good for them personally, but it would be good for all of us financially.

REPRESENTATIVE PARKER: Thank you, Mr. Chair. That concludes my questioning.

CHAIRMAN EVANS: Representative Katie True.

REPRESENTATIVE TRUE: Thank you, Mr. Chairman.

I don't know if I have ever said good evening -- good evening, everybody -- being in a hearing.

I just have a question I actually thought of last summer as I sat for days -- it seemed weeks; I don't remember what -- when we were doing the clean air bill, and I certainly supported that. I voted for everything, no exceptions; I just voted for everything and thought it was the right thing to do.

But it made me think about that a large part of this program is to come from the cigarette tax, and smokeless tobacco, if we get that done. And I'm just wondering, if people stop smoking, as we are encouraging them to do, I just wonder -- and we're talking about, you know, no smoking now in public places, again, if that ever goes through -- how do we deal with that?

I mean, we want them to stop smoking, we are telling them it is healthier to stop smoking, and yet a large part of paying for this program is through the cigarette tax. Would you just comment, and I'll just give you a little comment after that.

SECRETARY MASCH: Sure.

Well, you have correctly posed the dilemma that we face in public policy. We want to discourage smoking; we tax the consumption of tobacco products. I think, you know, that there is a history and a track record for the Commonwealth in doing this.

We have incrementally increased cigarette taxes. We have incrementally, over time, decreased the consumption of tobacco products. And ironically, by taxing these products, we helped to further discourage their consumption by raising the price.

So we think, really, that this is a win-win public policy. As long as people engage in the behavior, we should tax it, but the advantage of taxing it and of increasing those taxes is that it will further discourage the consumption.

Now, that is why we felt that in our Cover All Pennsylvanians plan, we needed a variety of funding sources. The tobacco taxes are a component of that, but they are not the only one. And in our models, we assumed that this is a declining revenue source over time for exactly the reason that you have cited, that the evidence is that over time, because we use part of our money from the tobacco settlement to fund programs to encourage the cessation or the reduction in consumption of tobacco products and we are raising the price of the product, we think that all of those things together will help to contribute to a reduction the consumption over time. But as long as the consumption is going to occur anyway, we do think it is good public policy to tax it.

SECRETARY RICHMAN: Let me also add to that. Probably in tracking health-care outcomes, the biggest factor is the use of cigarettes.

When you look at premature babies, and that is one of our most expensive costs in NICU units, it

is the tie to smoking.

Pennsylvania, incidentally, was number one in maternal smoking. I think we have dropped down, hopefully, to number three or number four.

Low birth weight babies can cost us anywhere from $500,000 to a million dollars in a NICU unit. If we can cut the smoking, we begin to save money.

I would tell you, if we can really go with no smoking, we can get smoking away from pregnant women, we can reduce all adolescent and child smoking, and we can make smoking a very difficult decision for adults, we will reduce health-care costs, and that's the major reason for reducing smoking.

It is costly to have people smoking. If we reduce smoking, I think easily we will make up with reduced costs what we will lose in the revenue.

REPRESENTATIVE TRUE: So essentially you are saying then that the population will be healthier which will -- do you have any estimates, or have you not gone there? I mean, have you plotted that out down the road?

And let me just say -- it is just a concern. I mean, it's the way I think, and maybe it's because I am a Republican from Lancaster County, but it's how

I think.

I'm not disputing the program or anything like that. I always have a concern whenever I look at particularly new programs like this that we are offering, you know, and say this all goes through as you all plan, will we take it away from people down the road because we can't afford to fund it? And I just think that about everything we do.

So that is why I said, have you estimated that? I mean, that certainly is a reasonable assumption, but it just concerns me, you know, that this little piece that we are talking about, if a couple of years down the road the money goes away, then we have to tell people, well, you can't have this health care anymore. That's just a comment.

SECRETARY MASCH: Well, we have done 10-year models. That's about as far out as I have gone on any public program that I have worked on. But we think the program that we have presented to you is a sustainable program for the next decade based on the funding sources that we are advocating, including the additional taxes on tobacco products.

REPRESENTATIVE TRUE: I thank you very much for those comments.

Thank you, Mr. Chairman.

CHAIRMAN EVANS: Chairman Civera.

CHAIRMAN CIVERA: Thank you, Mr. Chairman.

Good evening, everybody.

DIRECTOR GRECO: Good evening.

CHAIRMAN CIVERA: I'm not going to really basically ask a question, but I'm just going to basically summarize where we are and why a lot of us in the General Assembly are confused, a lot of why we are not really sure whether we want to support this, and basically what the constituents think back at home on the perception of this health-care insurance.

When the Governor started this, I guess it was a year ago or 2 years ago, he came out with a plan, and it said 3 percent of payroll. Now, I realize that the 3 percent of payroll is not on the charts any longer. But when he said 3 percent of payroll, the perception was that everybody in Pennsylvania was going to have health insurance, because a lot of the people in the business community -- and I happen to have a small business. That 3 percent of payroll was cheap. You can't buy insurance that cheap. There is no question about it. I mean, especially when you talk about what we are talking about, what is in front of us.

Now, since that time, we have taken the 3 percent away and we have made some changes. We looked at -- and the waiver was explained to us in detail tonight, and I thank the Secretary for that. But the average person at home, the perception is, what am I getting? Because now we mentioned adultBasic and we also mentioned that this is not an entitlement, which is good rhetoric. This is good debate going back and forth.

But then we go to the next part of this where it says "CAP is..." and it lists everybody that would be able to get CAP, and if you are working for a small business, everybody that works for a small business, the thinking at home right now is, they have to pass this; this is for me. And it is really not that everybody is going to receive it.

And there is nothing wrong with saying that, because you are attempting to give health-care insurance. There is nothing wrong in saying that, but the perception and the confusion is out there.

Now, you also mentioned the fact about bidding on this because of the adultBasic and the Blues. Our menu of insurance companies in health-care providers in Pennsylvania is not a long list. As a matter of fact, it is kind of a short

list. Has there been an attempt to bring the Blues in to see what this would cost, to have some kind of an idea, and, you know, really basically what the dollar amount is going to be?

So what I'm trying to say here tonight is that I think you need to be very explicit in what the Governor wants to do and where he wants to go with this. I mean, it is a great idea and it is a great political idea -- we are all politicians that are sitting here -- to say that, you know, this is what we want to do for the people of Pennsylvania, and I can't be critical of that.

But what I can be critical of, because I walk out of here sometimes and I come out of meetings and I go back home and I'll say -- a lady just the other day in the store said to me, "Representative, I need to talk to you. I need health insurance, and I'm going to sign up for adultBasic." There were a lot of people around me when she said this, and I said that I think by June, we are going to have something in Pennsylvania. "Well, what are you going to have?" I couldn't give an honest answer. I couldn't give an honest answer.

So if we are going to do an extension of the adultBasic, then that's what we are going to do; that

is what we have to zero in; that is what the Legislature has to look at.

But we start with these different questions, and you go back and forth. If you are sitting at home watching this -- and Dwight has got us all on TV tonight -- you are really confused. You are really basically confused. I'm not being critical of anything; I'm just trying to say, because if we are going to make an attempt to vote on this next week in the General Assembly, my God, if we don't understand, how do you expect the people at home to understand?

I mean, so what does the Governor want to do here? Tell me. Really lay it out. I want to hear it. This is what we are doing next week, and what is the plan?

SECRETARY MASCH: Right. Representative, let me start this way.

First of all, obviously we are having these hearings so that we can get a better understanding of what the proposals are and so we can get a better understanding of your concerns and the information that you need in order to make a good decision.

I want to go back to the creation of adultBasic. AdultBasic was created in the prior Administration, by the previous Administration of the

General Assembly, and when it was first created, its sole funding source was the tobacco settlement, and the tobacco settlement is a gradually declining source of revenue.

And since a fixed percentage of the tobacco settlement funds went into adultBasic and the costs were going up every year, it was a program that was designed -- I'm not sure everybody understood this at the time, but over time we understood -- it was a program that was designed to serve a smaller and smaller number of people every year.

But I think you made the right decision when you voted for that program, because it was a step forward for Pennsylvania. It meant people who needed a service that was good for them and good for us, because it does save the rest of us money, too, that was a step forward. When you did it, about 15,000 to 20,000 people could be served.

Our Administration negotiated an agreement with the Blues for the Community Health Reinvestment Fund, which had the virtue of adding a second funding source to adultBasic and one that expands over time rather than contracting. So it helped to offset the reduction in the tobacco settlement and increase rather than decrease the number of people who could

be covered and increase the number of people covered by adultBasic from about 15,000 to 20,000 to now about 35,000 a year, and I think that was a good thing when we partnered on that. It was a step forward for Pennsylvania.

So no, we are not proposing nirvana or paradise or anything like that, because we are working in government and we are working in the art of the possible. What we are proposing is a major step forward: over the next 5 years, reducing by close to a quarter million the number of uninsured people in Pennsylvania.

We think that makes a major dent in the number of uninsured. It saves all the rest of us money. It is better for every one of those people. And we assume that if it is an open program, not an entitlement and not a mandate, that those people who need the service the most, just like with adultBasic now, it is first-come, first-served. We assume that those people who need the help the most are going to be the ones who get first in line.

So will it solve all of our problems in health care? No. One of the reasons we have the rest of the Prescription for Pennsylvania is that there are other things that we need to do for the

rest of us in managing chronic care and reducing hospital-acquired infections, in improving the way our health-care delivery system works. We have major things to do in health information technology. But what we are proposing here is yet another step forward for Pennsylvania in terms of health care.

It is no more than that; it is no less than that. We believe that it deserves your support, and we look forward to negotiating with you, as we always do, to try to figure out a way to make the proposal better. That is what we are here to do.

DIRECTOR GRECO: Chairman Civera, if I might add to Secretary Masch's comments.

Perhaps the description "Cover All Pennsylvanians" is really what causes the confusion and raised the expectations that you referenced.

Let me just share with you our rationale for why we named it such, subject to change obviously. But we put it forth as "Cover All Pennsylvanians" because indeed that is the goal. And secondarily, the way we proposed it, it is a subsidy for those who are eligible for subsidy and others to be able to purchase at the same price that the State would be paying. And further, we were hopeful that the small group reforms would occur at the same time.

Sometimes people ask me the question, if Cover all Pennsylvanians doesn't get passed, will you feel that the entire Rx for Pennsylvania was, you know, damaged greatly? And others say, the only really important thing is to have Cover All Pennsylvanians passed, right? And the answer is both yes and no.

If we pass Cover All Pennsylvanians, we will be providing access to affordable health care for low-wage employees and for small businesses who employ low-wage folks because we have embedded in it a subsidy.

If we pass Cover all Pennsylvanians and the Legislature in the final iterations keeps in it the capacity to purchase Cover All Pennsylvanians at the State's rate, just as we do for adultBasic, that also expands the pool, but it would not use any of our State or Federal money.

The most important thing we can do in order to make health-care coverage accessible and affordable is to do both things -- pass Cover All Pennsylvanians, or a version thereof, and pass the small group reforms.

Cover All Pennsylvanians, if you passed it next week and we were able to implement it the

following week, we would be addressing the needs of 767,000 adults uninsured, at least as of our count in 2004, maybe more given the fact that the years have passed. But if we do small group reform as well as Cover All Pennsylvanians, we really will be affecting all small employers as well as individuals -- people who today are paying for their insurance; people who today are providing insurance for their employees.

But unless and until we contain the rate of growth in avoidable hospitalizations, unless and until we cut down on hospital-acquired infections and medical errors, unless and until we are able to really implement all of the other savings, then we are not effecting real change in Pennsylvania.

That is why Prescription for Pennsylvania has 23 initiatives. Cover All Pennsylvanians gets the most sort of focus, and, you know, understandably, because there are so many people out there, the people who come into your store who are at a loss for insurance.

CHAIRMAN CIVERA: Based on that response, and I appreciate that, though we are still in a situation where we will be a distance from where we want to be because of some of the things that have to

be put into place there.

All right. I don't want to dwell on it. I appreciate that answer. Thank you.

CHAIRMAN EVANS: I would like to, Mr. Chairman, give some historical perspective, and this is Mario's first time being Chairman of this particular committee, but he is not new to this process.

In 1990, Governor Casey was reelected. That is the first time I became Chairman of the Appropriations Committee -- hair and 36 years of age. That was the first time we did CHIP, in 1991. I negotiated that with Noah Wenger -- 2 percent for farmland preservation; 2 percent for CHIP. Right across the hall; we were in the majority.

And the one thing I have learned, Mr. Chairman, is even though you can talk about the big picture around here, we are so used to taking baby steps, and I recognize that and that is what we have to do. And if you look at CHIP, it started under Bob Casey, and then Governor Rendell came in, and then you see where we took the next steps.

And to your question, I think you asked a very legitimate question. There is a question of political will. The Governor can propose it; we in

the Legislature, Democrat and Republican alike, have to decide on how this gets paid. And I think that is where we fundamentally are, because you mentioned the payroll-tax proposal. The Chairman has a business, and he said, you know, that was like not a lot of money, the 3 percent. And I think, you know, you are paying for what you get. The Governor has tried to say that.

The problem I have seen in the political process is that no one has been listening to the degree that we have been open to have an open and frank dialogue. This is, in my view, the best hearing that has occurred on this subject matter, and the reason I have said let people go as long as they want to is because they should have their questions answered. To whatever degree, they should have those questions answered, and then we have to decide.

And the reason I believe we are in the particular predicament that we are is because we have allowed this to fester for so long, and now we are at a point where 800,000, 500,000 people, whatever the number is, it has reached such a point that now we are trying to take on something that we have allowed for over a decade plus not to really address. We have not really addressed this issue.

So I think, Chairman, you asked a very good question. I think the challenge for all of us is, is there the political will and not keep getting into this thing about -- and I hear it often, you know. It may be the cigarette tax, the payroll tax. You know, anything you particularly want, "I'm going to blame the Democrats," and that is all you people want to do. But I would argue that this has had a direct effect upon our economy and our economy to grow. We all know it has. There is no use denying it.

This has had an effect. The Federal government has had an effect in terms of medical assistance. You can see that. So if you look at the medical assistance and you look at the uninsured, those two combinations, and see, I have been Chairman long enough. I have been Chairman for 18 years, and Representative Parker wondered how I did it. I have been on this committee for 26 years -- 26 of 28 years.

So I have watched the lack of political will on our parts not to face up to this thing. The Governor doesn't have to have all the answers. There has to be a willingness of both parties to come up with some kind of a compromise way. Everybody is not going to get what they want, but I believe this is a

start, and I believe that the Governor's Office has done a good job, as thorough as they have tried to be, in laying it out.

If we don't like their proposal, then we should come up with our own proposal, and then we have got to figure out how we pay for this.

So I wanted to put a historical perspective around this, because I have been around here long enough to know. And the Chairman, I thought, asked the right question, and I appreciate your answer, what you said, but I want to talk about what we in the Legislature want.

I think we want people to have health insurance -- we want all our constituents to have health insurance like we have health insurance. We have health insurance; our constituents should have health insurance. And it is getting to a point now that you see it out there, this is the number one issue, not just in this State but in this country-- 47 million. It is the debate in the Presidential election.

Now, I don't know how much longer we are going to go along kind of acting like we don't have to respond to this. So that is what I am saying. In my view, when you constantly hear this debate, if it

is 800,000, 500,000, 200,000, whatever we cover, it is like we are at the point where we are taking baby steps.

So when we don't do anything, then we keep adding more and more to it, and that is why I wanted those people to come here today to put a face on it, and I wanted them to tell us, because sometimes I know that somebody doesn't want to believe them because they work for Ed Rendell, but I wanted those people to come here who left this room wondering if we are going to do anything real.

So I wanted to say that. I know the Chairman is of good heart. He and I have been here about the same amount of time. If it is going to happen, Mario, it is really going to be up to us. It is going to be up to Democrat and Republican to figure out a way how we convince our colleagues that this -- even if you don't address this, the problem won't go anywhere. Now, you don't address this, the number keeps growing.

I mean, I like Scott. He's a brand new person and I'm very impressed with him. He is 29 years old. I'm 28 years his senior, so he was 1 year old when I started out here. So I'm not saying, what does he know; I'm just saying, you know,

he is whipping out this stuff.

So I wasn't going to say anything, but you opened it up when you said what you said. But we can do this if we want to. We can do this if we want to.

So next week -- I'm just announcing; I don't want anybody to be surprised -- next week I'm going to bring this subject up. There is going to be a full-blown debate, whatever it takes. I'm going to be open for suggestions. We have got to do something. You know, maybe if it is tax credits and all the other stuff that people talk about with businesses, all that stuff is going to be on the table.

So you know I have tried to be open. I told you people last night, I'm not too proud to beg. Right, Representative Reichley? I told him that yesterday. He understands.

Let me go back to the agenda.

Steve Barrar.

REPRESENTATIVE BARRAR: Thank you, Mr. Chairman.

Director Greco, can you maybe answer a couple of questions for me?

DIRECTOR GRECO: Sure.

REPRESENTATIVE BARRAR: In your list of who the uninsured are, we see that 49 percent are between the ages of 18 and 24. How are you going to -- I think this is a group that really is the healthiest segment of our population. I think this is a group that you are going to have a very hard time selling a health insurance plan to until they get married or have children. At that point in time, then they become interested in this.

How many of them, and is there any way to look to see how many of them, when they are surveyed, they say they can't afford it or don't want to buy it? Is that question ever asked of them?

DIRECTOR GRECO: Yes, and the answer is both: I can't afford it, and if I thought I could, I would rather make a car payment.

REPRESENTATIVE BARRAR: Right. They would rather have a BMW or a flat screen or the other things at that age.

DIRECTOR GRECO: Right; exactly.

REPRESENTATIVE BARRAR: They have been in school for the last, you know, 20 years it seems like. Now they are out and they have money, and they want to buy all the things they have worked for.

DIRECTOR GRECO: Yes.

REPRESENTATIVE BARRAR: How many people between the ages of 18 and 34 actually sign up for adultBasic?

DIRECTOR GRECO: The people who do, I don't have the actual number. I don't know whether you do, though, but the people---

REPRESENTATIVE BARRAR: Is it the same segment that basically are the uninsured? Is it 49 percent?

DIRECTOR GRECO: These are the people who are ill, the people who sign up who are young, and this is the adverse selection event. You know, they can't get insurance or they can't afford the insurance that they could qualify for, and so what we find in that section are these are the young people with type 1 diabetes, as an example.

But we can come back to you and we can try to get that answer.

REPRESENTATIVE BARRAR: Thank you.

ACTING COMMISSIONER ARIO: Representative, to add one other fact, I think you are correct that it is harder to entice the young. They think they are invincible.

There are some sweeteners in this program to try to work with that population. One of them is to

say that a child can stay on their parents' policy until they are age 29. That is a reform that has been looked at in different places around the country and has proven effective at expanding the number of younger people who stay in the insurance pool.

Now, parents don't always like that, but---

REPRESENTATIVE BARRAR: Well, they can stay on it, but someone has to pay it. It is not paid by their company.

ACTING COMMISSIONER ARIO: There's a little bit of a premium, but it becomes easier -- if you are on the plan, you can stay on longer -- that's an easier way for somebody to get coverage. Then they lose their original parental coverage, and then they have to go to market and buy their own coverage. So that's an example of a kind of reform that can be targeted at the younger person.

Because you are right; in the absence of a mandate, the younger population -- you want those people in the pool. You don't want only the sick ones, as we talked about. You need the healthy people in the pool in order to keep overall rates reasonable.

REPRESENTATIVE BARRAR: Yes. And then I think if you look at the large numbers, 49 percent of

these are the uninsured. It's a huge number.

DIRECTOR GRECO: It is.

REPRESENTATIVE BARRAR: Really if you take them out of it, I think you are looking, in my opinion, you are looking at a much more realistic number, like 400,000.

DIRECTOR GRECO: One of the reasons we do want parents to be able to continue to carry their dependent children up to the age of 29 is because they wind up supporting part of the payment anyway, if not all of it, and it's easier, it is easier for that young person to obtain insurance and to stay on insurance, the continuity of it.

The other element in Rx for PA recognizes the fact that Pennsylvania is one of the top five destination States for out-of-State college students. So we have an awful lot of college students who come to Pennsylvania from other States and don't have insurance.

We are, in one of our pieces of legislation, we are asking for the authority to require all matriculating 4-year postbaccalaureate students to have an insurance coverage, or the university to provide health care, again for the same reason.

Those individuals in Pennsylvania who are

actually domiciled here and go to school here will also be able to come into the CAP product. And we want them into the CAP product because of the fact that they will round out the pool and mitigate adverse selection.

REPRESENTATIVE BARRAR: How do the universities feel about this mandate that you want to impose on them?

DIRECTOR GRECO: Well, it has been discussed with the Secretary of Education, and he is sort of monitoring that.

REPRESENTATIVE BARRAR: But has it been discussed with the universities?

DIRECTOR GRECO: Yes.

REPRESENTATIVE BARRAR: And they are---

DIRECTOR GRECO: Yes -- I'm sorry. By the Secretary of Education with the universities.

REPRESENTATIVE BARRAR: Okay. And they are in favor of this?

DIRECTOR GRECO: We have -- I would have to come back to you with that answer.

REPRESENTATIVE BARRAR: Okay. I have a feeling what they are going to say.

In your printout here, we have a list of funding. I think absent from last year's funding is

the fair share tax.

DIRECTOR GRECO: Correct.

REPRESENTATIVE BARRAR: Okay. How do you make up the revenue that is not included from the fair share? Where is that made up from?

DIRECTOR GRECO: Would you like to take that?

SECRETARY MASCH: Sure.

The replacement revenue comes from a restricted receipt fund that the Commonwealth has established called the Health Care Provider Retention Account.

The Health Care Provider Retention Account was established in 2004 from 25 cents a pack. It is a component of the cigarette tax. The initial purpose for which those dollars were used was to fund the Mcare abatement program.

When we established the Health Care Provider Retention Account, we needed at the outset all of those dollars to fund the Mcare abatement, which is 50 percent of the Mcare assessment for all physicians except specialists, and we abate 100 percent there.

But since 2003, the number of claims against the Mcare medical malpractice liability fund and the

average costs per claim have both gone down steadily. Mcare payouts were $379 million in 2003 and only $191 million in 2007.

And as a result, running the model over the next 5 years, even assuming that this positive trend of reduction in Mcare payouts is going to turn around and Mcare payouts will increase and cigarette tax revenues will decrease, we still have a substantial surplus in the Health Care Provider Retention Account now, and we anticipate generating additional surpluses over the next 5 and 10 years. So those are the funds that are available for this purpose.

What the Governor has proposed is that in December when he announced that we thought we had a different way to fund this program, he has proposed that we continue the Mcare abatement for the next 10 years, and we have run a 10-year model at his request, and we find that there are sufficient funds in the Health Care Provider Retention Account to provide the Mcare abatement for the next 10 years, even making the conservative assumption that our current positive trend on medical malpractice liability costs is going to reverse, and we have sufficient funds to put into the Cover All Pennsylvanians model.

REPRESENTATIVE BARRAR: So you don't raid this fund until what, 2 years out? Is it 2, 3 years from now is when you will pretty much raid it or dip into it, whatever you want to refer to? I think it is a raid, but---

SECRETARY MASCH: Right. Well, the General Assembly established the purpose of the Health Care Provider Retention Account as the promotion of the health and welfare of the citizens of Pennsylvania.

The first claim on the fund, we have agreed, should be the Mcare abatement. But there is nothing in law or policy precluding the use of those funds.

Once we fully discharge our obligation to fund the Mcare abatement, there is nothing precluding our using those funds for other purposes in terms of the promotion of the health and welfare generally and health care in particular.

REPRESENTATIVE BARRAR: At what point in time do you start to pay down the liability in that fund? Isn't there a $2 billion liability? Do you pay any of the existing liability down?

SECRETARY MASCH: Well---

REPRESENTATIVE BARRAR: I think when the Legislature passed this, I think we assumed that we would eventually pay the bill and pay that fund down

as far as possible.

SECRETARY MASCH: Representative, that's correct, and since the Governor made his announcement, which was December 4, we have had inquiries from the General Assembly and also from health-care providers as to whether there was a way to structure the Cover All Pennsylvanians program and the Mcare program so as to achieve the goal of the bipartisan Mcare Commission that this General Assembly established 2 years ago, and that goal was to phase out the Mcare program, pay off the liability, and go to 100 percent private insurance market for medical malpractice insurance in Pennsylvania.

And my answer to you is, we are cautiously optimistic that that goal can be achieved within the parameters of the program that we have set forward. We think that the amount of funds that are available would be sufficient if -- what the Governor had proposed back in December was continuing the Mcare program.

If, on the other hand, the Mcare program were to be phased out and replaced with private insurance, we believe there are sufficient resources to pay off what has been called the tail. That is

the remaining unfunded liability once health-care providers stopped paying into the Mcare Fund, the presumption being that once providers are no longer covered prospectively for incidents between a half million and a million dollars, we would then also not expect them to pay into the fund.

That was the position of the Mcare Commission. The Administration views that as a reasonable proposal, that as we phase out coverage, we also phase out the obligation of health-care providers to contribute to the Mcare Fund.

We think there are sufficient dollars there, and at the behest of the physicians and the hospitals, we have been attempting to model out those scenarios right now. And we are not done doing that work, but our preliminary analysis suggests that that could indeed work.

REPRESENTATIVE BARRAR: The community health reinvestment funds from this year will be $121 million. Now, that agreement with the Blues is scheduled to expire in 2010.

SECRETARY MASCH: Right; December 2010.

REPRESENTATIVE BARRAR: Now, what is the future? Are you currently negotiating as part of the merger between Highmark and Blue Cross? Are you

negotiating with them to extend this?

ACTING COMMISSIONER ARIO: No. There have been discussions with the Senate, and I think a bill was recently circulated out of Senator White's committee having to do with the continuation of CHR. But it is not part of the initial review of the proposed consolidation.

That review is done under the seven standards that this Legislature has established. The first job I have there is to look carefully at each of those standards and determine whether the merger meets that.

That merger or consolidation, if it were approved, would have a major impact on the market for the next generation. We are talking about a trillion-dollar market over the next 10 years. So that decision in the first instance needs to be made based on whether this will be good for policyholders, what it will do for competition in the State, and that is how it will be made.

If it meets all of those standards and there is an initial decision that it could go forward, there has been a lot of talk about maybe there ought to be some conditions on it. But that is a whole second level set of discussions. The first issue is,

does the merger work? And so that is a separate set of discussions from CHR.

The other thing I would say, though, about CHR is I do believe from talking to people who put that deal together, in the first place, that everyone envisioned that this would be something that would go for 5 years in a specific form, but that the notion that the Blues plans in this State have a social mission is something that isn't just a 5-year social mission; it is something that goes on.

So in some form or fashion, I think everybody contemplates that particular obligation for social mission and some quantification of it, and something like a CHR will continue. But it is a separate issue from the consolidation.

SECRETARY MASCH: Right. So it is not tied to the merger, but I want to be clear, the Administration's view is that the community health reinvestment or something very similar to it ought to be extended, at least for the next 10 years. We believe the Blues have the capacity to do that without impairing their finances, whether there is a merger or not, and that is one of the proposals that the Administration is supporting. We believe that that ought to happen.

REPRESENTATIVE BARRAR: Okay.

All your estimates this year in your proposal here show that in this year, 144,000 people will be eligible to enroll into the CAP program. Is that correct? I think the majority of them will come from the adultBasic program? They will be shifted from adultBasic to---

ACTING COMMISSIONER ARIO: In rough numbers, in rough numbers we are talking 50,000 today in adultBasic. An offer will be made to the 100,000 or so on the waiting list. We anticipate about a 50-percent take-up rate. That would add 50,000, so you would be at 100,000. And then under the proposal as the Governor gave it, there would be about another 50,000 that would be added in coverage.

So current, 50,000, half the current waiting list, plus another 50,000, for a total of roughly 150,000.

REPRESENTATIVE BARRAR: Okay. So let's go 5 years out to 2012-13. At that point, you estimate an enrollment of 260,000 people and a cost of over a billion dollars at that point.

Does that billion-dollar figure represent the costs of -- does that still reflect a $283 premium 5 years out? Or have we estimated the

cost of that premium at an 11-percent increase per year, which is pretty much what we are seeing health premiums on average increase. I mean, what does that billion dollars represent at this point?

ACTING COMMISSIONER ARIO: Unfortunately I got to tell you that we do anticipate continued health inflation, so it is a premium that is going to rise over time. It is probably in the notebook exactly what that number is.

But of that billion dollars, one important fact that I would bring -- and it has been emphasized a couple of times here but it bears repeating -- of that billion dollars, if you look at the proposal in the "Budget in Brief" book, $450 million of it is Federal money.

Today, adultBasic is paid entirely with State money, unlike CHIP. Two-thirds of CHIP comes from a Federal match.

REPRESENTATIVE BARRAR: Yes.

ACTING COMMISSIONER ARIO: This program, if it is put into effect the way we are talking about with the waiver that Secretary Richman is talking about and so forth, there would be a major Federal contribution. We would begin to get value in Pennsylvania for those Federal tax dollars that we

pay.

So $450 million of that billion comes from a Federal match the way the program is contemplated.

REPRESENTATIVE BARRAR: Okay. But it does include the possible -- Mercer shows here that the premium will increase from $286 to about $325 in the 5-year period, as it increases there.

SECRETARY MASCH: A little over $325. That is correct.

REPRESENTATIVE BARRAR: What will this chart look like in 2013? I mean, what will change dramatically on here?

I guess you are assuming that the Federal funding will increase dramatically, but at what point in time, I guess is the point I am trying to get to, is when will the General Assembly have to raise taxes? Do you project that we will have to raise taxes in order to pay for this program?

SECRETARY MASCH: No. The 10-year model that we have run out -- and this is why we are advocating -- it says we can do this program within the funding sources that we have proposed. So that is the increment to the cigarette tax -- the use of a portion of the cigarette tax is going into the Health Care Provider Retention Account -- community

health reinvestment, tobacco settlement, some of the uncompensated-care money, and that would increase incrementally over time as the number of uninsured goes down, although the majority of the uncompensated-care money would still be provided to the hospitals even after the 10 years. And then the Federal match to all of that, plus at the higher income levels, the employee premiums and the employer contributions to the plan.

REPRESENTATIVE BARRAR: I guess what has us concerned, last year when we sat here, 5 years out you had projected that we would have a total of 430,000 people covered under CAP, and the cost would be $1.3 billion.

So we are getting, I mean, from last year to this year, we are getting totally different numbers. Can you explain the discrepancy between what you testified to last year and this year? And I guess, you know, I guess we are just as confused as we were last year when these numbers were thrown at us.

SECRETARY MASCH: Well -- do you want to take it?

DIRECTOR GRECO: Representative, I believe that the difference in the numbers is contingent upon the fact that we were projecting a fair share

assessment to begin for all employers who did not offer health-care insurance but exclude from that 3-percent fair share assessment employers with 50 employees and below, and then the next year 40 and below, and the next year 30 and below.

And even though we had in the fifth year 10 and below, the question in our mind was whether or not we would ever apply, or the Legislature would ever apply, a fair share assessment for the very, very small.

REPRESENTATIVE BARRAR: Okay.

DIRECTOR GRECO: We also at that time concluded that as the fair share assessment began to apply to smaller groups of employers, or smaller numbers of employees in a small group employer, that we would have more of an uptake, and we don't, because we don't have the fair share assessment.

So as we were making the projection, we were making the projection on the basis of a different pool. You know, 400,000 people versus 200,000 people gives you less adverse event as well. A smaller pool puts you into the position of having potentially people who are more like our adultBasic at a point in time, at least at the outset -- at least at the outset.

So that is my take on the difference, but I'll turn it over to the Secretary.

SECRETARY MASCH: No; I think that's correct.

The only thing I would add is, as we have briefed legislative staff and gotten those questions, and as we have gone out and talked to providers and insurers and community groups, we have constantly gone back and worked with our actuaries and consultants to refine the numbers.

So in our current projection, our actuaries think these take-up rates reflect in a non-mandate environment the level of enrollment that we are likely to see, given exactly the factors that you have set forward, that not everybody, even if this is an affordable product, is going to take up the offer.

Just as we know in medical assistance right now, we do have some people who are at the lower income levels eligible for medical assistance today who have the ability to sign up for the program and are not signing up for it. So there is going to be some portion of the population that is eligible and is not going to take it up.

So I would say the other thing that has changed in addition to the funding sources which

determine how many people we could cover is also our actuaries looking at the demographics of the pool of the uninsured and looking at experience in other States with programs of this kind, looking at the experience at the lower-income levels with voluntary sign-up and the experience in adultBasic today and saying, they don't think that we would be likely in this program design, with these costs, to have any more people signing up than the number that are here.

Now, as we have said, we are not proposing it be an entitlement program, so we are saying that even if there were more demand, this program would not be able to cover more people. But our actuaries are also telling us that they think this would in fact be the level of demand for the program, and as has been our experience with CHIP and with adultBasic, that we would get sign-up incrementally over time.

REPRESENTATIVE BARRAR: So the first year we are going to sign up 144,000; 5 years out we are going to have 260,000 individuals signed up.

At what point in time do you expect that we will wipe out this 700,000 or 800,000 number of the uninsured? When will we cover all Pennsylvanians, at

what year?

SECRETARY MASCH: Well, we would not be able to cover all Pennsylvanians unless two things happened: unless we added additional funding to this program, and we imposed the mandate, because even if we had the funding, there are people who are not going to sign up unless there is a mandate.

Now, we have all been watching the Massachusetts experience. That makes us in the Administration very leery about mandated programs, so that's one of the reasons we are not advocating them.

As I said, our view is, let us attempt to make this incremental progress, serve the needs of those who most urgently need this kind of a program, and then let's take stock as a Commonwealth about what we ought to do next.

REPRESENTATIVE BARRAR: Just a couple more questions, Mr. Chairman.

The last time we had a hearing on this, last year, we had learned that in order to meet the price range that you are talking about for this bid to go out at, what is it, $283 or $286 per month, that certain State mandates, insurance mandates that are imposed on private providers, were going to be waived

in order to meet this target range.

Are there any mandates being waived by the Insurance Commission here? I think there were some dealing with diabetes and others that we require Blue Cross and all the other health insurance companies to provide, but that under this Cover All Pennsylvanians, that you are not meeting certain mandates required by State law.

ACTING COMMISSIONER ARIO: Representative, that is a very good question, and we will get you the answer.

That is typical in these programs, that the State-designed benefit plan is not subject to all the mandate laws. I don't know specifically here. We will check that out and get back to you.

Let me make just one other, more kind of broad point. I'm going back to the Chairman's comment about, you know, it is kind of confusing, all these numbers.

I'm the new guy here this year. I looked at the Governor's plan on the Web page last year before I came here. I was very impressed. It is a very well put-together program. Director Greco and her staff have done a wonderful job. But I also, as a political realist, I kind of wondered when we were

going to get engaged and have to make some changes, and I think one of the things you have seen here is that the Governor has been remarkably flexible.

I agreed strongly with the Governor about the fair share assessment. From a health policy perspective, it was critical to keeping our employer-based coverages, and it was a very hard thing for him to give up, for good reason. But when he saw he couldn't get it, he gave it up, and now we are on plan B, and there are plans C, D, and E being discussed in this building.

So a lot of that kind of questioning here that has to do with so many different numbers and so many different scenarios is basically because we, I think as the Administration, have shown so much flexibility to try to listen to new information and adapt new kinds of proposals. And in the end that causes confusion, but it is also probably the way we are going to actually get to a result, is to try to take all this input in and continue to adapt, and then you end up with new numbers and kind of new scenarios on a regular basis.

REPRESENTATIVE BARRAR: But in the spirit of compromise, I think our caucus staff has met with Ms. Greco's caucus staff and been told that there is

no compromising on this, that they will not embrace any of the recommendations from the Republican Caucus health-care task force.

ACTING COMMISSIONER ARIO: That is not my experience.

DIRECTOR GRECO: Not my experience either, and Secretary Masch has been in those meetings, along with Secretary Crawford and Secretary Cooper.

As a matter of fact, about 6 months or so ago I was to present, along with Representative Scott Boyd, at a program in Lancaster, and I went to see Representative Boyd to introduce myself, and we sort of talked about what we would be presenting.

And we went to the presentation, and at the end of it, I basically said to Representative Boyd that, you know, we really are looking at the same kinds of issues. The group in the House Republican Caucus focused on very many of the issues that we have in Prescription for Pennsylvania. They called their proposal the "Real Prescription for Pennsylvania."

We have had three or four meetings. We have discussed the intent of their recommendations, including a desire to have health savings accounts, and we have done some work on that; including a

desire to have a set of benefits for small employers who do offer health insurance in the form of some kind of a credit, and, you know, we did not reject that. We have talked about that.

I'm trying to remember some of the others.

REPRESENTATIVE BARRAR: But if there are additional, because I know we are short on time, and I'm going to end this here, but if there are other proposals of that health-care task force's recommendations, that if you could let our Chairman know which ones you were willing to embrace, we would greatly appreciate that.

DIRECTOR GRECO: Absolutely.

REPRESENTATIVE BARRAR: Thank you, Mr. Chairman.

Thank you.

CHAIRMAN EVANS: Scott Petri.

REPRESENTATIVE PETRI: Thank you, Mr. Chairman.

I am going to try to clear up some confusions I have had during the last, I don't know, hour and a half of conversation, because it does seem to be a little confusing.

Let me start with, one, Director Greco, when you were asked by Chairman Civera a question, you

gave a very good response, but one of the things you said, that probably even confused me, and I'm sure it confused anybody who is watching this, led people to believe, and I want to clear this up, it is my understanding that in order to obtain the $286 worth of insurance, or to pay that, you still have to qualify for the program.

I wouldn't want anyone who is watching this to think, well, I'll just cancel my insurance and I'm going to apply for this State program, and I'm making whatever I'm making and I'm going to pay $286. You have to qualify to receive the same price that the State will be paying for this product.

DIRECTOR GRECO: Thank you for that question.

If in fact you meet the Federal poverty level standards, and you have not had insurance for 6 months, that is part of the eligibility to qualify.

REPRESENTATIVE PETRI: Okay.

DIRECTOR GRECO: The same thing applies to small employers. That comes back to the crowd-out question. Is a small employer willing to drop his or her coverage for his or her employees for a 6-month period?

REPRESENTATIVE PETRI: Thank you for that clarification.

Two years ago--- This question is for the Insurance Commissioner. Mr. Commissioner, 2 years ago we had a rather interesting discussion, actually in this committee, about timing and decisions that were made. So I want to ask you some questions that are related to your regulatory function.

Am I correct that the decision or the request by the Blues to go to a rate increase and to have it declared that their reserves are not in excess is an abatement? It has not been decided as of this time period.

ACTING COMMISSIONER ARIO: Representative, there was a decision on surplus levels and how they affect rate increases, and three of the four Blues plans now are in the middle status in relation to rate increases, meaning that they can get rate increases but their profit margins, what we call the risk and contingency factor, cannot be part of those rate requests because their surplus exceeds certain basic standards.

REPRESENTATIVE PETRI: Okay. My real question is, I know that all the Pennsylvania Blues under this plan are going to be required to bid, and

what I want to know is, are any of the regulatory issues that are pending with the Blues going to be decided before they are required to bid, or is that going to be held, if you will, like a sword of Damocles over their head?

ACTING COMMISSIONER ARIO: Representative, it will not be held as a sword of Damocles. There are regular, on an ongoing basis, as you can imagine, with the four largest, or three of the four largest plans in the State being Blues plans, there are many regulatory decisions that take place on a daily basis, and those are continuing to be made.

Each of these plans submits rate-increase requests and various other kinds of requests with us all the time, and there is absolutely no plan in my shop to hold any set of those issues over and then use them as some kind of leverage over the decisions of bidding.

Again, the bidding process is a public process. They will bid, and there will be decisions, and if nobody bids at these prices, something will have to change in the plan.

REPRESENTATIVE PETRI: The reason I asked that was, with the prior Commissioner when the issue came up about adultBasic, it was interesting that all

these "decisions" mysteriously all took place on the same date.

We had a letter from the Office of Health Care Reform resolving some issues, letters from the Insurance Commission -- the same date, boom, they were all resolved. So I hope we aren't going to be back in that situation. I think we have to make sure that this bidding process is fair and open.

Now, I want to shift gears.

ACTING COMMISSIONER ARIO: Representative, can I say one thing, because I can answer the question over here, too.

It is 203 plans, and it is NEPA and Highmark, both of which made money last year in adultBasic, and the third Blue that is part of the plan, IBC, did not.

So I think that is a reflection of the fact that the bidding and the projection of what is there, they bid tight. They are not going to bid to make a lot of money, and one of them lost, but two of the three made money last year on their adultBasic bids.

REPRESENTATIVE PETRI: Okay.

Last year when we had the discussion on the first proposal, which, of course, had the employer

assessment, and as I understand it, the reimbursement rate that we were looking at and that was evaluated by the actuary, Mercer, at that time was medical assistance plus 5 percent.

And we left this hearing, and actually in Bucks County we had a hearing where we brought in a lot of the health-care providers and they testified, and they had great concerns about that reimbursement rate. And I can tell you that as a result of the hearing, most of the physicians I heard from said they would not sign up for the plan, they would not participate, because their costs, just for their staff, their nurses, would exceed the reimbursement rate.

Now, that product would provide no behavioral health benefit, and it had no pharmaceutical carve-out, and that was $283, as I understand the proposal.

Has the Office of Health Care Reform and the Insurance Commission had push-back from the physicians about that reimbursement rate?

DIRECTOR GRECO: Representative Petri, let me give you some numbers that will demonstrate the payment under CAP as Mercer has depicted it with the 5 percent above the Health Choices payment rate.

REPRESENTATIVE PETRI: Well, before you go there, and I want you to go there---

DIRECTOR GRECO: Okay.

REPRESENTATIVE PETRI: ---just let me ask you, since announcing the original proposal last year, have you had push-back from the health-care providers saying, we cannot operate with that rate of reimbursement?

DIRECTOR GRECO: The answer is no, and let me just tell you why, and I think the numbers may illustrate.

For those physicians who already in fact see our Medicaid patients, and, you know, we have never claimed to be as a State, you know, the highest payer in terms of reimbursement to physicians, but this 5-percent increase means this kind of a difference, and I'll just use three particular procedures.

I'll start with Philadelphia, but then I'll give you the number without Philadelphia for the State.

In Philadelphia, the office outpatient visit estimate, what we pay for Medicaid, is $35. Under the 80 percent of Medicare or 5 percent above Health Choices, that would be $50.62.

The office consultation under Medicaid is

$50 in Philadelphia, and the CAP rate is much higher, almost double.

The emergency department visit in Philadelphia would be a $35 reimbursement under Medicaid on average, and with the 5-percent increase, it would be about $51.

Now, we know that the cost of providing health care in Philadelphia is higher than it might be in Bucks County or any of the surrounding communities, but even there, the differences are that 5 percent.

So an office outpatient visit outside of Philadelphia, $35; with the CAP 5-percent improvement, it is $45.34. The office consultation is $50, and the 5-percent increase for CAP is that much more, almost double, and the emergency department visit.

So what we are hearing from the physicians is that this is a better rate, obviously, than the Medicaid rate. The only concern that they have expressed is that they would prefer that we would tie it to Health Choices plus 5 as opposed to, we were talking about 80 percent of Medicare, and the concern that the physicians have registered is that Medicare is coming down, so they don't want that formula.

REPRESENTATIVE PETRI: Well, you must be experiencing a different result than I am. I can tell you at that hearing -- and it was well attended -- we had a number of experts who handle medical offices, and they told me that they actually lose money on a quarter-hour basis under these reimbursement rates, and in fact they don't sign up for Medicaid for that reason.

So the question becomes, from my constituents in Bucks County, where are they going to go to have the services provided if doctors aren't going to sign up and accept the reimbursement rate? And do you have any intentions on how to handle that?

I mean, earlier today we heard from the Insurance Commissioner. If I understood what he said, my interpretation was that in order to continue to receive your abatement for Mcare, you were going to be required to participate in this program.

DIRECTOR GRECO: Joel, do you want to take that, and then I will answer the question.

ACTING COMMISSIONER ARIO: We believe what I said earlier today was that I thought it was appropriate for the Legislature to consider that kind of tie. If you are going to give a benefit, you can

impose an obligation, and I said I would get back to the committee on that.

And I did check out the position, and the Administration does support some linking. We don't have a specific proposal ourselves right now. It's not in any of our bills, so that is one of these issues that we could work with the Legislature on.

But if the policy question is, is it appropriate when you say to doctors that we are going to give you a big benefit here in this abatement program, should there be any obligations that flow, our position would be that we would be open to that discussion and could see arguments for the linkage.

DIRECTOR GRECO: Just to reference Bucks County, and I believe you have the sheet, so I won't go through it--- Okay.

We have distributed in a blue folder to each of the members of the Appropriations Committee a sheet that gives you numbers about the uninsured in Bucks County -- in each county.

In Bucks County, Representative Petri -- you know this, I'm sure -- there are 17,655 uninsured adults, and that represents nearly 5 percent of the entire adult population. That's not very large. But

we had 3,627 people on the adultBasic waiting list in Bucks County prior to January's enrollment offering, and we have 2,763.

Where am I going with these numbers? There are 1,312 physicians and 11 hospitals in Bucks County. We know that our HMO and our Medicaid recipients in Bucks County are indeed receiving medical care, not by all 1,312 physicians, however, to your point. But the fact that we would be paying higher reimbursement for CAP, we would hope that clearly the physicians who currently see Medicaid patients will also see our CAP patients.

REPRESENTATIVE PETRI: I really don't think you answered the question. I know you tried to, and it is probably because you don't have the answer. And I do understand how many people in Bucks County are uninsured.

My point is that if doctors, as I predict and as has been testified to, do not accept the reimbursement rate, you are creating a second class, if you will, a lower class of recipient of services, because they will have to either go out of county, wait an awful long time to try and get to see their doctor, or not be able to get coverage, and that's not fair.

SECRETARY MASCH: Well, Representative, Representative---

DIRECTOR GRECO: It isn't fair, but actually, Representative Petri, it is also incorrect.

REPRESENTATIVE PETRI: Okay. Tell me how I am incorrect?

DIRECTOR GRECO: Do you want to take this?

SECRETARY MASCH: Yes.

Representative, we are serving 1.9 million people under Medicaid today. They are all being served, and as far as we can tell, they are being served well and adequately.

Is every physician in Pennsylvania willing to take Medicaid cases? They are not. Are there a sufficient number to provide an adequate network? There are. We are proposing in this plan adding, as we put on the record, under 250,000 additional people at higher rates of reimbursement. Are we confident that there is a network out there? There is.

Look, I think we all recognize, too, that when the government is involved in the purchase of health care through medical assistance, through CHIP, though adultBasic, and through coverage for our own employees and retirees, we are in an interesting relationship with all of our health-care providers.

Under medical assistance, we have 83,000 separate health-care providers, and we are doing business with them, and they have every right in our competitive, open-market system to seek the highest rate of reimbursement that they can, and we fully expect them to do that.

And our job is to deliver the best value for the taxpayers -- fair prices, fair rates of reimbursement, deliver the services. And there is, we should all acknowledge, a tension in that. Our goal is to keep the rates as low as possible. The goal of providers is to get the best rates of reimbursement for everyone they are doing business with -- all the private employers, the nonprofits, and everyone else.

REPRESENTATIVE PETRI: Well---

SECRETARY MASCH: We will bid this plan competitively.

If our current estimates are incorrect, then we will need to make adjustments. But we are here today to put on the record that we have done as much diligence as we can, and we believe that the model we have presented to you is a realistic representation of what we can achieve. That is not a guarantee, but it is the best good-faith effort we can do to put

forward to you what we think this program is going to cost.

Are we confident that there is a network out there that will provide care? Yes. And the evidence of all the programs providing care to all those hundreds of thousands of people suggests that there is a very strong track record to suggest that we can provide this care.

It is just counterintuitive to say that if we provide higher rates of reimbursement, we are going to have a harder time constructing a coverage network than we do today.

REPRESENTATIVE PETRI: Well, I hope you are right.

And let me just say on behalf of the doctors, I know that many of them personally -- and we have all talked to them -- all of them are willing to provide even totally un-reimbursed services at times.

What they are also saying to us, though, is you have to create a model where we can be competitive. On the one hand, their costs, including health insurance, continue to go up dramatically. Their Mcare costs are not really coming down. At best, they are staying level, from what they tell me,

and they are saying that it is becoming tougher and tougher to practice.

And what they have also said very clearly is that this linkage between the abatement and this program is very, very problematic. They feel, and what they have expressed to me very clearly, is that maybe they are not wanted in Pennsylvania.

On the one hand, we are not willing to extend the Mcare so that they can continue in practice, and on the other hand we are saying that we want you to commit more services where they believe that they would be losing money, not even breaking even.

One last question. As part of the new model that has been examined as of February 20 by the actuary Mercer, are we depending upon a certain amount of savings from a carve-out on the medical? Is that part of this plan, and if so, what are we counting on in dollar numbers as a savings to pay for the plan?

SECRETARY MASCH: I'm not sure we have the dollar number here. I'm looking---

SECRETARY RICHMAN: On the carve-out, the pharmacy carve-out applies to the difference between the managed-care plans, our Medicaid managed-care

plans getting a rebate and what government can get.

The rebate extended to managed-care plans is about 5 percent. The rebate extended to government is 30 percent. So the savings that we are projecting are based on that difference in rebates.

SECRETARY MASCH: Right. And, Representative, that is not speculative, because that is a federally mandated requirement as long as we run a separate pharmacy benefit program, which is why we advocate running the program as a separate program.

REPRESENTATIVE PETRI: If you have those numbers, though, for this particular program, a breakout of what you anticipate the savings, if you could submit it to the chair, I would appreciate it.

Thank you, Mr. Chairman.

SECRETARY MASCH: Yes; we will do that.

CHAIRMAN EVANS: Representative Craig Dally.

REPRESENTATIVE DALLY: Thank you, Mr. Chairman.

I believe I'm the last person between everyone and dinner, so I'll make it quick.

As the Chairman indicated, I guess he has a pretty aggressive schedule in terms of voting something on this proposal, perhaps next week. I

don't know if that will work on a timing basis or not.

But one of the concerns that our committee has is the free flow of information, and the Budget Secretary mentioned about this 10-year model and the Mcare modeling, and the problem that we have had is that we have requested numerous times for information and that model in an Excel format.

On February 7 we were told that the Office of Health Care Reform was coordinating all the CAP-related requests. We made an attempt to secure that information. On February 22, we were told that your office is awaiting the Budget Secretary to sign off to provide these items.

That past Friday, we just received the Mercer update, but we still haven't received the 10-year model in an Excel format.

SECRETARY MASCH: You have received the 10-year model that is consistent with this plan that we have proposed.

REPRESENTATIVE DALLY: In an Excel format?

SECRETARY MASCH: Yes.

Your staff has requested other models that are currently in development and are not yet completed.

REPRESENTATIVE DALLY: Okay.

SECRETARY MASCH: But they are for alternatives to the Cover All Pennsylvanians plan as it has been presented in the budget. That is the best information that I have.

REPRESENTATIVE DALLY: Okay. Well, I am told that the last request was made by e-mail on Saturday, so---

SECRETARY MASCH: That is a request for other models that are not yet completed.

We are asking you to consider the version of Cover All Pennsylvanians that has been proposed in the budget, and you do have the Excel spreadsheets and the 10-year model consistent with that.

REPRESENTATIVE DALLY: Okay.

SECRETARY MASCH: As I have said on the record, we have been asked to develop other models that would make other modifications, and that work is underway, and we will, as we always have, we will share all of that with the Appropriations Committee when it is completed.

REPRESENTATIVE DALLY: Okay.

Well, obviously there is some disagreement as to what information has been submitted and what hasn't, but in order for us to evaluate, obviously we

need the correct data to do so. So I appreciate your cooperation in that regard.

The other thing I wanted to mention was the two instances where, Director Greco, you mentioned the gentleman, the used-car salesman -- and this was several hours ago, so I'm sure most people have forgotten about it -- but the gentleman with the broken arm, you said that situation would be covered under your scenario. But really, I mean, if he had no coverage going into an emergency room with a broken arm, he wasn't going to walk away without it being tended to, so I don't know whether this plan would have addressed that concern.

And as far as the small business owner is concerned, she said she didn't want to pay a 3-percent payroll tax, and your plan calls for a $131 copay on the employer part, but she didn't want to pay anything. So I don't know where her employees go for coverage. I mean, that is part of the obligation here.

DIRECTOR GRECO: Sure.

REPRESENTATIVE DALLY: So your plan wouldn't have helped her either---

DIRECTOR GRECO: No---

REPRESENTATIVE DALLY: ---if an employer

doesn't want to pay anything.

DIRECTOR GRECO: If I might address both of your questions, Representative Dally.

REPRESENTATIVE DALLY: Okay.

DIRECTOR GRECO: The gentleman who had the problem about billing and his credit being destroyed, I was not referring to the fact that he wouldn't have been treated or couldn't have access to health care. I was referring to the fact that we have in regulation fair billing and debt collection procedures that would protect someone like him coming forward.

REPRESENTATIVE DALLY: Well, not if you don't pay your bill. If you don't pay your bill, it is going to affect your credit rating.

DIRECTOR GRECO: Well, the fact of the matter is, he had no idea that that was going on, fair billing and debt collection.

REPRESENTATIVE DALLY: He didn't say that.

DIRECTOR GRECO: Yes, he did. He said that he didn't know that they even had his Social Security number and that he had no idea that his benefits were so, you know, difficult to understand. So he didn't know what would be covered or not.

REPRESENTATIVE DALLY: Okay.

DIRECTOR GRECO: We have transparency and simplification of benefits in terms of the standardized plan that the Commissioner, if given the authority, will require.

And secondly, the fair billing and collection could have been worked out to his betterment so that he could pay something, and he would know what that billing would be. And it would take a lot longer for the hospital to recoup, but they would have gotten paid. So that's the first one.

To the second person, the second person who referenced the fair share assessment and the tax obviously was not aware that that was taken off the table. But she also referred to the fact that a lot of her folks are eligible for other kinds of State programs -- health subsidy, et cetera.

Those individuals could apply for CAP and, based on their household income, may be paying as little as $10 a month. So CAP does address her concern for her employees, but as individuals.

REPRESENTATIVE DALLY: Without an employer copay.

DIRECTOR GRECO: That is correct.

REPRESENTATIVE DALLY: So there is no obligation on the employer then to pay for any portion of the employee's health care.

DIRECTORY GRECO: That is correct.

REPRESENTATIVE DALLY: Okay. So the government just pays for that.

DIRECTOR GRECO: The government supports Medicaid, adultBasic, CHIP, Cover All Kids, and will support CAP.

REPRESENTATIVE DALLY: Okay. And those employees are part of a pool of individuals that could possibly get that health care, right? There is no guarantee of that.

DIRECTOR GRECO: Well, those employees as individuals can apply, just as they could for adultBasic.

REPRESENTATIVE DALLY: Right, but they could be on a waiting list, too.

DIRECTOR GRECO: It depends on when they sign up. Yes.

REPRESENTATIVE DALLY: Okay.

And real quick, there was a question that the Chairman asked about the pricing of the plan, and I was wondering whether you had verified, or at least for comparison purposes requested any of the Blues to

develop a premium for what you are offering?

DIRECTOR GRECO: There are certain restrictions to exactly how much we can engage with potential bidders. So, no, we have not made that request.

REPRESENTATIVE DALLY: All right.

I think I will just end with, I think that one of the most intriguing stories I have heard in 2 weeks of budget hearings now was the gelato story, about the mysterious nonprofit, the government providing $7 million for a purchase to transfer to a nonprofit for a dollar, the sale of the property for $11 million, the failure to repay DPW of $7 million, and now a bankruptcy of the nonprofit, and you are saying that you have no knowledge of any of that in Health Care Reform?

DIRECTOR GRECO: No; what I said was, it is not under the auspices of the Office of Health Care Reform.

What Representative Reichley was referring to is public knowledge in the newspapers. I read the newspapers, so in that regard---

REPRESENTATIVE DALLY: But you said that there was someone in your office that was involved with that nonprofit.

DIRECTOR GRECO: Yes, in fact at the direction of the Governor.

REPRESENTATIVE DALLY: Okay.

DIRECTOR GRECO: She reports to the Governor on that, not to me.

REPRESENTATIVE DALLY: Okay.

SECRETARY MASCH: Representative, if we could, for the record, the Governor's involvement was in partnership with Senator Specter, and both of them, as the other Representative pointed out, Governor Rendell does reside in East Falls and so does Senator Specter, and because they are both neighbors of the Medical College of Philadelphia, they were aware of the vital health-care services that that institution was offering, and they were also aware that there was a group of physicians from the hospital that wanted to make, and what was a valiant good-faith effort to try to preserve that health-care institution in the community.

Now, as it happened, that was an unsuccessful effort. But I think -- and we don't want to be unclear about this -- the Governor did support the efforts to try to preserve MCP as a viable health-care institution in that neighborhood. So did Senator Specter. They both did it because

they knew, as nearby residents, how important that institution was, and we regret that that was an unsuccessful effort.

Since it was unsuccessful, we are determined and we are pursuing to the best of our ability in the courts our rights to recover those public resources that were invested in that effort, and we have not given up on those recovery efforts and we hope that they will be successful.

REPRESENTATIVE DALLY: Okay. Well, I guess the reason it doesn't pass the smell test, and it made the laudable goals in doing this, but if a nonprofit gets the property for a dollar, sells it for $11 million, and then owes DPW $7 million, that means they made a $4 million profit. I mean, where is the money?

SECRETARY MASCH: Well---

REPRESENTATIVE DALLY: And if that woman worked for me, I would ask her tomorrow morning when she comes into work, where is the money, and then you could tell us all where it is.

SECRETARY MASCH: Well, there were other costs involved. But look, we have made exactly these representations to the bankruptcy judge. We believe that there is a right for the Commonwealth to

recovery in this instance from the assets that are remaining, and that is why we are pursuing litigation in the bankruptcy.

REPRESENTATIVE DALLY: All right. I guess we have kicked that dog around enough.

Thank you very much, Mr. Chairman, and thank you, panel.

CHAIRMAN EVANS: One, I want to thank you, all of you, for what you do for the people of the Commonwealth of Pennsylvania and for what you do for this State government.

We really appreciate this opportunity, and I believe that every member has had an opportunity to ask questions in an exhausting way. So there should be no question that everybody has had their chance. I have left this floor open. I am even trying to leave it a little bit longer, because I'm stressing that I think this is important, that this has been a good discussion.

And then I sincerely want to thank all the members who have stuck through and asked all the questions they had.

Again, I would like to thank you.

This hearing is now adjourned until 9 a.m. tomorrow morning, when we have the Secretary of

Public Welfare, and later on in the afternoon, the Secretary of the Budget.

Thank you very much.

DIRECTOR GRECO: Thank you, Mr. Chairman.

(The hearing concluded at 7:55 p.m.)

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings and that this is a correct transcript of the same.

_____
Jean M. Davis, Reporter
Notary Public