COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
INSURANCE COMMITTEE

MAIN CAPITOL
ROOM 140
HARRISBURG, PENNSYLVANIA

PUBLIC HEARING
HOUSE BILL 2455
COMMUNITY HEALTH REINVESTMENT

TUESDAY, MAY 4, 2010
9:00 A.M.

BEFORE:

HONORABLE ANTHONY M. DELUCA, MAJORITY CHAIRMAN
HONORABLE DAN FRANKEL
HONORABLE BRYAN BARBIN
HONORABLE FLORINDO J. FABRIZIO
HONORABLE NICK KOTIK
HONORABLE EDDIE DAY PASHINSKI
HONORABLE HARRY READSHAW
HONORABLE JOSH SHAPIRO
HONORABLE MATTHEW SMITH
HONORABLE RICK TAYLOR
HONORABLE NICHOLAS A. MICOZZIE, MINORITY CHAIRMAN
HONORABLE THOMAS H. KILLION
HONORABLE BRAD ROAE
HONORABLE SCOTT W. BOYD
HONORABLE ROBERT W. GODSHALL
HONORABLE GLEN R. GRELL

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1 BEFORE: (CONT'D)

2 HONORABLE MARGUERITE QUINN
HONORABLE CURT SCHRODER

3

4 ALSO PRESENT:

5 HONORABLE DOUGLAS G. REICHLEY

6 ARTHUR F. MCNULTY, EXECUTIVE DIRECTOR (D)
CHERYL HALDI, RESEARCH ANALYST (D)

7 STACIA LONGENECKER, LEGISLATIVE ASSISTANT (D)
KATHY MCCORMAC, EXECUTIVE DIRECTOR (R)

8 BRENDA J. PARDUN, RPR

9 REPORTER - NOTARY PUBLIC

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1 P R O C E E D I N G S
2 CHAIRMAN DELUCA: Good morning, ladies
3 and gentlemen. It's five after, and we'll call
4 this meeting to order. And before I do that, I'd
5 like to start from my right, up here, for the
6 members to introduce themselves.
7 REPRESENTATIVE BOYD: Scott Boyd from
8 43rd District, part of Lancaster County.
9 REPRESENTATIVE PASHINSKI: Good
10 morning. Representative Eddie Day Pashinski,
11 Luzerne County.
12 REPRESENTATIVE FABRIZIO: Flo
13 Fabrizio, Erie County.
14 REPRESENTATIVE BARBIN: Bryan Barbin,
15 Cambria County.
16 REPRESENTATIVE KILLION: Tom Killion,
17 Delaware, Chester County.
18 REPRESENTATIVE MICOZZIE: Nick
19 Micozzie, Delaware County.
20 CHAIRMAN DELUCA: Chairman Tony DeLuca
21 from Allegheny County.
22 Dan Frankel is eating his yogurt over
23 here. And we also have --
24 REPRESENTATIVE GRELL: Good morning.
25 Representative Glen Grell, 87th District,

1 Cumberland County.
2 REPRESENTATIVE READSHAW:
3 Representative Harry Readshaw, Allegheny County.
4 CHAIRMAN DELUCA: Again, ladies and
5 gentlemen, let me welcome you to the House
6 Insurance Committee public hearing on House Bill
7 2455.
8 And as you are aware of, that this
9 committee has been holding various meetings and
10 certainly has been active, one of the most active
11 committees in the house. And I want to commend
12 them for their bipartisan support on legislation
13 that we have put out.
14 This bill was introduced by Majority
15 Leader Todd Eachus, in recognition of the insurance
16 crisis that is brewing as we approach the end of
17 the calendar year. More specifically, at the end
18 of 2010, the Community Health and Reinvestment
19 Agreement, or CHR, will expire. The CHR is an
20 agreement which the four Blues plans signed with
21 the insurance department to fund the adultBasic
22 program and the major funding source for the
23 adultBasic program.
24 Ladies and gentlemen, adultBasic is a
25 state-run program that helps provide health

1 insurance for low-income individuals.
2 If the CHR is not extended or a new
3 funding source not identified, forty thousand to
4 fifty thousand citizens of the commonwealth will no
5 longer have insurance and will encounter new
6 difficulties obtaining medical care.
7 Before turning to the agenda, I do
8 want to thank Leader Eachus for his introduction --
9 excuse me -- of the legislation. Representative
10 Eachus has been a tireless advocate for health care
11 reform and has pursued quality health care
12 initiatives for all Pennsylvanians.
13 House Bill 2455 is just another
14 example of the excellent leadership that
15 Representative Eachus demonstrates on an issue that
16 is crucial to every citizen and every family in
17 this state.
18 But I also would be remiss if I did
19 not thank the four Blue plans for their efforts on
20 this issue. I'm sure that no one here today wants
21 to see anyone lose their health care insurance.
22 But, by the same token, I understand that the Blues
23 have a responsibility to their policyholders and
24 subscribers and must protect the physical integrity
25 of their companies.

1 These competing interests have
2 prompted my scheduling today the hearing. Needless
3 to say, we have had some significant interest in
4 the hearing, and I expect the witnesses to be very
5 helpful and informative.
6 I want to remind everyone that the
7 house session begins today at 11 o'clock, and we
8 have much to get through.
9 With that, I'll ask my colleague, my
10 minority chairman and my good friend,
11 Representative Micozzie, if he has any comments.
12 REPRESENTATIVE MICOZZIE: Thank you,
13 Mr. Chairman.
14 There's two conflicting issues that
15 I'm concerned about. AdultBasic, of course, is
16 very important in my district. In fact, former
17 Representative Civera, myself, and Representative
18 Miccarelli have a large list of adultBasic
19 constituents. In Delaware County, I think I'm
20 first.
21 And on the other side of the issue,
22 which I'm concerned about, is that when you talk
23 about just having the Blues fund the adultBasic, it
24 concerns me, because the Blues are in dire straits
25 already. And I have the most -- talking about

1 jobs, I have the most constituents in Delaware
2 County that work for the Blues. So I'm concerned
3 about both.
4 And I hope, Mr. Chairman, if you --
5 Mr. Chairman, Mr. Majority Leader, I hope that we
6 can find some compromise where -- to keep
7 adultBasic, to keep the -- I guess the fifty
8 thousand, I think we're shooting for fifty
9 thousand, but to spread the -- to spread the costs
10 of the payments across the board to other -- to
11 other entities so that I don't face, in my
12 district, the layoffs of jobs, because jobs in
13 Delaware County, especially the southeast Delaware
14 County, are critical.
15 And sometimes I feel like a -- a
16 person who has to give jobs out because my
17 office -- my office continually has people coming
18 in being out of work. So hopefully we can solve
19 that problem.
20 Thank you.
21 CHAIRMAN DELUCA: Thank you,
22 Representative Micozzie.
23 We have also been joined by
24 Representative Schroder, Representative Godshall,
25 Representative Taylor, Representative Roae.

1 Again, I want to welcome you, Majority
2 Leader, and you may begin.
3 MAJORITY LEADER EACHUS: Thank you,
4 Mr. Chairman. And it's an honor to be before the
5 committee. I got my start with you all. I'm
6 saying that, you know, when I started here in '96,
7 I had hair. So it's great to be back among old
8 friends and colleagues.
9 I'm glad to be able to discuss this
10 critical issue with the committee today that really
11 affects so many lives. The adultBasic program was
12 conceptualized under the leader of both of you, in
13 this committee, during the Ridge administration.
14 It was a bipartisan bill that's was constructed
15 after we received the tobacco settlement money,
16 after the tobacco companies paid for the lawsuit
17 against their -- their arguments over two
18 generations. That money was put in place in order
19 to make sure that we prioritize health first, which
20 was under that agreement.
21 Both of you gentlemen, the two
22 chairmen, worked closely together to make sure that
23 this has worked, and, in fact, it has. The
24 adultBasic program is the only state program that
25 provides accessible and affordable health care

1 coverage for adults who otherwise are unable to pay
2 for it.
3 As you know, the committee members,
4 the adultBasic age is nineteen to sixty-four years
5 old. It's a large segment of our population, yet
6 there are still few options for affordable,
7 low-cost health insurance access for average
8 Pennsylvanians, notwithstanding what's happened at
9 the federal law. Talk about that whole issue
10 another day. We took responsibility in
11 Pennsylvania long before our federal counterparts
12 were ever talking about health insurance access, in
13 a bipartisan way.
14 You know, we have children's health
15 insurance that covers our kids, and this committee
16 was essential in making sure that every child in
17 Pennsylvania had access to the CHIP program. Our
18 seniors have PACE and PACENET access to our
19 innovative prescription drug program. Once again,
20 another thing that this committee has done to make
21 sure that we expanded prescription drug coverage,
22 increased eligibility guidelines, and get the best
23 deal for Pennsylvanians. We've done that better
24 than anybody.
25 But why was the adultBasic program

1 created in the first place? It was created because
2 of the undeniable need for access to health
3 insurance. No matter how this health insurance
4 debate has framed itself nationally, we know there
5 is a need for affordable access. There's fifty
6 thousand people who could currently be on this
7 program -- there's a little over -- a little under
8 that on the program right now. But it's undeniable
9 that the need is there.
10 There are three hundred eighty-four
11 thousand people, three hundred eighty-four thousand
12 people on the adultBasic waiting list. There's
13 over a million people now uninsured in
14 Pennsylvania. And with every loss of every job, as
15 the Chairman Micozzie so eloquently said, there's a
16 loss of access to affordable health care. These
17 issues are kind of preeminent in holding our
18 society together.
19 A survey in 2008 showed that
20 Pennsylvania had nearly 12 percent of people
21 between nineteen and sixty-four years of age who
22 did not have health insurance. That number's
23 growing as our economy struggles. Sadly, more than
24 a million people are without health insurance
25 today, as I've said, and the number -- and the

1 numbers continue to climb with every loss of every
2 job.
3 You ask why we're worried about this
4 program, insuring fifty thousand lives in
5 Pennsylvania. Why? You know, we've answered that,
6 and it's simple, because the fifty thousand people
7 are our neighbors. They're are brothers and
8 sisters, our aunts and uncles who have -- are
9 currently in this program. And they live in
10 counties like Delaware and Erie and Lancaster and
11 Luzerne. They're all over the commonwealth.
12 Why are we here, though? We're here
13 because, you know, at the end of this year, in
14 December 31st, the agreement that was signed
15 between the Blue Cross companies, who have done a
16 very good job of providing charitable care and
17 charitable services to Pennsylvanians, offered an
18 agreement, and that agreement worked like this:
19 Continue to provide the access of the dollars that
20 we committed in the agreement in the tobacco
21 settlement funds, which you have continuously done,
22 and those will continue on for just under another
23 decade. And the Blue Cross companies graciously,
24 as part of their charitable mission, contributed a
25 hundred fifty million dollars over five years to

1 the Community Health Reinvestment Agreement.
2 That agreement lapses at the end of
3 this year. And with that lapse will mean for the
4 fifty thousand lives that are covered under
5 adultBasic program, your brothers and our sisters
6 and our aunt and uncles, they will have no access.
7 This program will shut off.
8 Frankly, the members of the committee
9 and the members of the house, that's an untenable
10 situation. In a world where we're trying to solve
11 large problems in health care, we can't allow fifty
12 thousand people to be placed in the street who
13 currently have a state program that's been as
14 effective as the adultBasic program, have those
15 people placed out without insurance.
16 So what this bill that I've placed
17 before you today does, it calls on the ability to
18 find that balance to guarantee the investment from
19 the Blue Cross companies, and in the hopes that we
20 avoid any program dislocation for the people who
21 need the health insurance. It's just that simple.
22 The particulars you can discuss by the panelists
23 today.
24 There is going to be a lot of concerns
25 about, you know, the economy, the impact on the

1 companies who provide this charity care, and
2 they've done a tremendous amount of charitable work
3 within the commonwealth. It's part of the
4 charitable mission. And what I'm asking for from
5 this committee is an honest look at the road ahead
6 and not wait until December 30th to act. Why?
7 Because the people in this program deserve a proper
8 transition, a proper answer on whether they'll have
9 insurance on January 1st of 2011 or not.
10 And that's the core of this
11 discussion only before your committee, decisions
12 that you're going to have to make about how those
13 resources are allocated, either through a model
14 that I present to the committee today or through
15 some other compromise which could be reached, are
16 always up to the committee. I respect that.
17 But as the majority leader in the
18 house and just an average guy from Hazleton,
19 Pennsylvania, who's been lucky enough to work in
20 health care policy for over a decade, this general
21 assembly has made a commitment, a commitment to
22 being leaders on health access for Pennsylvanians
23 long before the fight nationally.
24 And I'm asking us to lead again. The
25 bill that I placed before you provides a stark

1 choice for the decisions about reallocating
2 priorities of dollars from the surplus the Blues
3 currently have.
4 Today, our Blue Cross companies -- and
5 maybe the numbers will be clarified -- the surplus
6 is just under six billion dollars. We don't need
7 much in order to transition the lives of the people
8 who are in the adultBasic program to get between
9 2010 and 2014, when we're going to have to
10 deliberate further on what the Pennsylvania model
11 will be for the federal program.
12 I saw yesterday that Representative
13 Shapiro kicked off his study commission that may be
14 conceptualized here in the House to allow us to
15 figure out what that program will look like, but we
16 have work to do today on transitioning the federal
17 program that was implemented in Washington and
18 guaranteeing the commitment that we've made to the
19 people of Pennsylvania that these lives will be
20 covered, that that obligation is met, and the
21 committee's work is done.
22 So, Mr. Chairman, I know you have a
23 very concise schedule today, and, as you know, I'll
24 be convening business on the house floor at 11:00.
25 I'll leave the deliberations to you.

1 But I do say this: It's not
2 acceptable just to say "no deal" for the people on
3 this program. That's not acceptable, just casting
4 people -- again making forty thousand people part
5 of the ranks of the uninsured where we've met the
6 obligation and faced it head on in a bipartisan way
7 with the adultBasic program, made our commitment to
8 being leaders in health insurance. Let's lead now.
9 And that's what I ask this committee to do, and I'm
10 very proud to be back before the committee to
11 discuss it.
12 CHAIRMAN DELUCA: Thank you,
13 Mr. Leader. And thank you for your testimony.
14 Usually we would be having our members
15 ask you questions, but I know you have a tight
16 schedule with especially the governor coming in and
17 the special session that we start at 11:00. We
18 will be having hearings on the health care issue,
19 and we certainly, any members -- pardon me?
20 REPRESENTATIVE SCHRODER: I had
21 requested to ask questions, Mr. Chairman.
22 CHAIRMAN DELUCA: You know what,
23 Representative Schroder, here's the problem. We
24 are on the floor at 11:00 o'clock. We want to hear
25 the other panelists. The leader has stuff to do.

1 He's things to do. I understand that he's
2 testified.
3 MAJORITY LEADER EACHUS: I'm also
4 willing to come back at a day you have more time.
5 CHAIRMAN DELUCA: We'll have other
6 meetings where he can come back and discuss this
7 issue, but we'd like to hear from the other
8 testifiers to find out. We're trying to ascertain
9 some information on this legislation. There'll be
10 plenty of time for us to ask questions.
11 We can ask the leader -- if we all
12 start, we'll be here till 11 o'clock with just the
13 leader.
14 MAJORITY LEADER EACHUS: In my --
15 REPRESENTATIVE SCHRODER:
16 Mr. Chairman, I appreciate that. And you have
17 every right to control the committee, and I respect
18 that, and I'm not going to argue that any further.
19 I would just point out that the leader
20 obviously decided to make himself available to the
21 committee and was not dragged here under duress or
22 anything, I'm sure.
23 And I would also say this: That the
24 leader has made many public statements about this
25 issue that I think need to be explored. And I was

1 just hoping to have the opportunity to do that
2 during this hearing.
3 Thank you.
4 CHAIRMAN DELUCA: Well, we will be
5 having other hearings, Mr. Schroder. You'll have
6 plenty of time to question the leader in public.
7 And, certainly -- and I understand your situation.
8 I talked it over with the minority chair, and we
9 do, because of the situation -- he is the leader
10 and he, in fact, he has to run the House floor
11 calendar, we do have a special session, I think we
12 can give him that leeway.
13 MAJORITY LEADER EACHUS: But I will
14 come back, Mr. Chairman. I'm happy to come back.
15 CHAIRMAN DELUCA: And I don't think
16 that the leader will ever shy away from asking
17 questions, if I know him.
18 REPRESENTATIVE SCHRODER: As long as
19 he comes back.
20 MAJORITY LEADER EACHUS: I'm happy to
21 come back. There's nowhere to hide.
22 CHAIRMAN DELUCA: This is just the
23 start of the process. We have still -- as the
24 leader said, we want to make sure that we're ahead
25 of the game before December 31st comes, and the

1 same way we're going to have hearings on the
2 national health care to get more information so we
3 can decipher that. Nobody that I know of has any
4 information that can tell you exactly what's in the
5 bill.
6 We have a lot of work to do. And I'm
7 sure that the leader will not shy away. He's not
8 going to shy away today from any of the questions.
9 I'd like to hear the other testifiers, because we
10 only have a short period of time.
11 MAJORITY LEADER EACHUS: Thank you for
12 the indulgence of the committee, Mr. Chairman. And
13 I look forward to a return appearance to talk more
14 in depth about my legislation.
15 Thank you very much.
16 CHAIRMAN DELUCA: Thank you very much,
17 Mr. Leader.
18 We do have on two other members of the
19 committee, Representative Shapiro and
20 Representative Quinn. I think I see Representative
21 Kotik here.
22 It's great to see everybody here. I
23 wish we could take this show on the road. We will
24 have a full house, too. Unfortunately, I guess we
25 have to have the hearings in Harrisburg to get a

1 full house.
2 The next individuals that will be
3 testifying is the Blue panel: Kim Kockler, vice
4 president of government affairs, Blue Cross of
5 Northern Pennsylvania -- eastern Pennsylvania;
6 Robert Baker, senior director, government affairs,
7 Capital Blue Cross; Michael Warfel, vice president,
8 government affairs, Highmark; and Chris Cashman,
9 vice president, corporate and public affairs,
10 Independence Blue Cross.
11 Welcome to all of you here today. And
12 as I said, we will have more hearings, and we will
13 have the leader here, to question him and grill
14 him, and certainly if time permits, we will have
15 you here, and then if we run out of time, we'll
16 limit our questions to what we do for you too.
17 Okay. So, again, whoever wants to
18 start, it's up to you.
19 MS. KOCKLER: Okay. And we'll just go
20 in order, then, of the agenda that you have.
21 Thank you, Chairman -- Chairman
22 Deluca, Chairman Micozzie, committee members and
23 invited guests. Thank you for the opportunity to
24 be here.
25 My name is Kim Kockler, and I'm vice

1 president of government affairs at Blue Cross of
2 Northeastern Pennsylvania.
3 We are happy to be here today and
4 happy to have the opportunity to comment on the
5 program in question as well as House Bill 2455.
6 I'm here today because our company,
7 Blue Cross of Northeastern Pennsylvania, is
8 concerned about the ongoing viability, as you all
9 are, of the adultBasic program, and because House
10 Bill 2455, we believe, is deficient in terms of
11 solving that problem. We ask that this committee
12 please keep in mind the following points for
13 purpose of not only today's discussion but our
14 future debate on this issue.
15 Our company understands and
16 appreciates the fact that the expiration of CHRA --
17 CHAIRMAN DELUCA: Kim, excuse me.
18 Representative Godshall -- if you could speak more
19 into your -- Representative Godshall can't hear
20 you. We try to accommodate all the members.
21 MS. KOCKLER: You bet. You bet.
22 Is this better? Very good.
23 I'll just start with the major points,
24 as I was just starting to run down. We understand
25 and appreciate that the expiration of the CHRA

1 agreement on December 31st of this year impacts the
2 budget, the state budget, for 2010-2011 as it
3 applies to funding the adultBasic program.
4 As an original participant from day
5 one in adultBasic, we are concerned about the
6 people currently enrolled in that program. We have
7 about forty-five hundred of them in northeastern
8 Pennsylvania, and we are very concerned about what
9 their options and what this issue holds for them.
10 For more than seventy years, our
11 company has been committed to our community,
12 including those who carry our insurance coverage
13 and those who don't. Our commitment to the health
14 and wellness of the populations we serve in
15 place -- were in place long before the CHRA and
16 will be in place long after the CHRA.
17 The current adultBasic program
18 represents an outdated health insurance model, and
19 that's something I think we should spend some time
20 on today, if we can, or in future hearings or what-
21 have-you. It's an outdated model that hasn't been
22 changed in nine years. None of us with the
23 companies we have have products that we haven't
24 changed in nine years.
25 We need the legislature to focus on a

1 sustainable and equitable solution for those
2 Pennsylvanians currently enrolled in this program.
3 Chairman, the majority leader gave you
4 some background on the CHRA. I won't repeat all of
5 that, but in order to evaluate the bill before us,
6 we really have to understand the history of how the
7 CHRA came about.
8 We signed this agreement, as he noted,
9 in February of 2005, and, in short, it was intended
10 as a time-limited agreement to help fund the
11 adultBasic program. The CHRA proposed a 1.6
12 assessment on our commercial premium and another
13 1 percent assessment on Medicare and Medicaid
14 products over the five-year period, less a
15 deduction of the premium taxes we pay, which we
16 will also talk about today.
17 Sixty percent our assessment directly
18 supports the adultBasic program. The other 40
19 percent of that assessment was to be used to fund
20 other community-based endeavors that support the
21 un- and underinsured in our area.
22 For context, our total estimated
23 contribution over the life of the agreement,
24 speaking for our company only, is anticipated to be
25 thirty-three million dollars, with twenty-three

1 million dollars in funding directly to adultBasic.
2 I'm sure you're going to hear those numbers from
3 all of us, and our companies, certainly, will --
4 you know, we'll all give you those respected
5 numbers, and they'll be larger for larger
6 companies.
7 Like most companies, BCNEPA will find
8 itself in a much different financial position today
9 than we were in 2005. For example, in 2005, we had
10 a surplus of over four hundred million dollars. At
11 the end of 2009, our surplus was two hundred fifty
12 million dollars. A 40 percent decrease in the
13 surplus.
14 We are also embarking on
15 implementation of federal health care reform, the
16 most major health care policy changes we've seen in
17 the history of our industry. The impact of federal
18 reform on our operations and our customers and on
19 the costs of doing business are largely unknown.
20 There will be thousands and thousands of
21 regulations to come down. So we also need to look
22 to that as we look to this particular proposal.
23 We are also operating in a national
24 and state economy that's far less secure and stable
25 than it was five years ago, as reflected by

1 diminished commercial customer base. You know, in
2 short, we are not where we were in 2005. It's a
3 different day for all of our companies.
4 Many represent that the CHRA and now
5 House Bill 2455 are a, quote, unquote, fair
6 substitution, since the Blues do not pay taxes.
7 This is misleading and untrue. In fact, since
8 2005, BCNEPA has paid over thirty-five million in
9 federal taxes. We also pay local taxes, even
10 though we're not required to, so we're not totally
11 tax exempt, tax-free organizations.
12 It's also stated that the CHRA's
13 appropriate because the Blue plans are exempt from
14 the state's premium tax. That is also not true.
15 Our company does pay premium taxes on our
16 for-profit business and has, in fact, paid almost
17 twenty million dollars in premium taxes since
18 2006. Only the business under our nonprofit
19 companies, the Hospital Service Association of
20 Pennsylvania and our first priority health HMO, are
21 exempt from the state premium tax.
22 Examples of products that are offered
23 under our nonprofit company are CHIPS, adultBasic
24 of course, special care, which actually was the
25 precursor. The Blues actually had special care,

1 which is much like adultBasic before the state
2 required us to have anything. This was our
3 voluntary commitment to the uninsured.
4 And also we have a product known as
5 co-op, which is really our insurer of last resort
6 product. When you can't get coverage elsewhere,
7 this is where you come.
8 These products, ironically, those that
9 are proposed to be taxed at 2.4 percent under 2455,
10 enroll the most vulnerable of our members. It is
11 important to understand that's where that tax is
12 going to apply to those products.
13 Another important point for the
14 committee to understand is that our community
15 commitment is in no way fully defined by our -- by
16 or limited to the CHRA agreement. Long before this
17 agreement, Blue Cross of Northeastern Pennsylvania
18 supported the product and programs we previously
19 mentioned, those that enrolled the most vulnerable
20 members of society and those that no other insurers
21 will cover.
22 Over the last five years, we have
23 subsidized these non-group products by over one
24 hundred thirty-three million dollars.
25 It is true that the tax status of

1 BCNEPA as a nonprofit company has resulted in a
2 fifty-five million dollar tax exemption from the
3 state premium tax over the life of the CHRA.
4 However, as I said, you add up that one hundred
5 thirty-three million dollars we've used to
6 subsidize the other products, we've given out over
7 six million dollars in grants to promote the health
8 and wellness and help the uninsured in our areas.
9 So when you bottom line it for our
10 company, for this fifty-five million privileged
11 exemption, we've spent over a hundred forty million
12 dollars. Not good math for even a not-for-profit
13 company.
14 As we move forward in this debate, we
15 would offer the following recommendations. The
16 commonwealth's priority should be the development
17 of a sustainable and fair solution for financing
18 adultBasic and for all the challenges that face the
19 program. The commonwealth should review the
20 current program, take a look at the current
21 program, which has been based on the same insurance
22 model since the program's inception.
23 As I said before, you need to look at
24 the program itself, perhaps change the benefits,
25 consider many things you could do from an insurance

1 company perspective to change the program.
2 The commonwealth should also revisit
3 its commitment to the adultBasic program, and
4 Representative Eachus mentioned that, by restoring
5 tobacco settlement funds, that it continues to
6 decline over the life of this program. We should
7 restore that funding back to original levels.
8 The commonwealth should explore any
9 and all available funding now that comes through
10 federal health reform, as was noted earlier. We
11 don't understand all about federal reform yet. We
12 don't know what opportunities may lie there.
13 But taxing those who purchase health
14 insurance, and specifically only those who purchase
15 insurance from the state Blue plans, is not the
16 answer.
17 The amount BCNEPA would pay in taxes
18 under House Bill 2455 will nearly triple the amount
19 of our current CHRA commitment. Our customers are
20 already challenged by the current economic climate
21 and will bear the cost of federal reform such as
22 the federal health insurance tax that is coming
23 down. This is not sustainable for our customers or
24 health care costs in northeastern and north central
25 Pennsylvania.

1 The bill also oversimplifies the
2 complexity of the challenges that face the
3 adultBasic program.
4 In short, Mr. Chairman, and in
5 conclusion, we are prepared to help in this
6 debate. We have never walked away from our
7 commitment to the commonwealth. We're not doing
8 that today. We are only saying, take a hard look
9 at the programs and take a look at the moneys that
10 may be available elsewhere before you put the
11 entire burden on those who pay for health insurance
12 from the Blues.
13 Thank you.
14 CHAIRMAN DELUCA: Thank you, Kim.
15 Bob.
16 MR. BAKER: Good morning,
17 Mr. Chairman, and members of the House Insurance
18 Committee.
19 Can you hear okay, Representative
20 Godshall? You all right?
21 Okay. Good.
22 Since you're already quite familiar
23 with the essence of the discussion here this
24 morning, I thought it might be best if I spoke
25 directly to the issue of why the state's four Blue

1 plans cannot be expected to continue to fund the
2 ongoing or possibly expand the adultBasic program.
3 Let me begin by responding to a
4 statement made in the recent newspaper articles
5 that said, in part: Knowing their nonprofit status
6 puts them in a position to pay no business tax.
7 Capital Blue Cross is a not-for-profit
8 company that competes directly with Highmark,
9 another not-for-profit company, as well as numerous
10 for-profit companies. We have some nine hundred
11 thousand members and over two thousand employees.
12 We have no -- unlike what you hear in Washington,
13 we have no shareholders. We are not publicly
14 traded nor do we pay dividends.
15 However, to say we pay no taxes is
16 completely inaccurate. Capital Blue Cross is
17 subject to federal and state income taxes and pays
18 corporate net income taxes, capital stock taxes,
19 premium taxes, and local taxes. In 2009 alone, we
20 paid over twenty-five million in premium taxes,
21 over two hundred sixty-five thousand in capital
22 stock taxes, and nearly a million dollars in local
23 taxes. The alleged exorbitant tax exemption that
24 we receive from being not-for-profit is less than
25 four million dollars and shrinking.

1 As important, we subsidize more than
2 fourteen million in losses for our individual
3 products, something our competitors do not do. We
4 also subsidize ten million for our CHIP and our
5 Medicare supplemental programs and for community
6 health initiatives, such as clinics, childhood
7 obesity, and senior outreach programs. We also
8 contributed over five hundred thousand dollars last
9 year to charity, such as the Pennsylvania Breast
10 Cancer Coalition and the American Heart
11 Association.
12 Overall, our community spending and
13 taxes have risen from less than ten million dollars
14 in 1999 to over fifty-two million dollars in 2008.
15 We are now facing an even bigger
16 economic challenge. The federal health care bill
17 calls for health insurers across the country to pay
18 an extraordinary amount of new taxes to help
19 balance the cost of the federal bill.
20 Beginning in 2014, insurers will be
21 required to pay eight billion dollars in new
22 federal taxes, with that number rising to 14.3
23 billion in 2018, with upward adjustments every year
24 thereafter.
25 Since this is a new tax, we need to

1 begin preparing for it immediately. The cost to
2 Capital Blue Cross will begin at an estimated
3 thirty-five million dollars per year, rising to an
4 estimated sixty-two million dollars by 2018.
5 As you know, the Blue subsidy of the
6 adultBasic program is due to expire at the end of
7 this year. Despite the signed agreement calling
8 for an end to our involvement, both the governor's
9 budgets and House Bill 2455 would require us to
10 continue to subsidize the program at an even higher
11 level than before.
12 The administration does this while
13 reducing the amount of -- excuse me -- tobacco
14 subsidy funds dedicated to the program each year
15 from a level of seventy-four million in
16 expenditures when the program began in 2005 to a
17 proposed fifteen million dollars in 2010. This
18 constitutes an 80 percent decrease in tobacco
19 subsidy expenditures while seeking a substantial
20 increase in contributions from the Blue plans, all
21 while Capital Blue Cross's premium taxes paid to
22 the general fund continue to rise.
23 For Capital Blue Cross, our CHR
24 obligation would be an estimated fifteen million
25 dollars. That's fifteen million dollars paid to

1 the CHR fund while paying over twenty-five million
2 dollars in premium taxes to the general fund and
3 subsidizing our individual offerings, state CHIP,
4 our Medicare supplemental, and community health
5 initiatives by more than twenty-four million
6 dollars. Meanwhile, our non-Blue, not-for-profit
7 and for-profit competitors pay nothing into the
8 fund.
9 Capital Blue Cross would be willing to
10 consider alternatives to fund the adultBasic
11 program for an additional six months but not so
12 long as 95 percent, instead of 60 percent, of the
13 funding is to go directly to adultBasic and our
14 non-Blue competitors are not required to contribute
15 to the program.
16 We also strongly believe that the
17 program should not be expanded, especially in light
18 of the challenge the commonwealth faces in dealing
19 with its own budgetary concerns. Further, if such
20 financial demands are placed on us, we will have
21 little choice but to raise rates, reduce or
22 eliminate the subsidies of the programs already
23 mentioned, and cut back significantly on community
24 contributions.
25 Finally, we believe that the

1 commonwealth should return to funding the program
2 at the original tobacco fund expenditure level of
3 seventy-four million dollars annually.
4 Thank you for your time here this
5 morning, and, of course, I'd be more than happy to
6 answer any questions.
7 CHAIRMAN DELUCA: Thank you, Bob.
8 We'll get to that.
9 Mike.
10 MR. WARFEL: Good morning. I'm Mike
11 Warfel, vice president of government affairs at
12 Highmark.
13 Chairman DeLuca, Chairman Micozzie,
14 and members of the committee, good morning.
15 I'm here to offer comments on House
16 Bill 2455 and discuss the reasons why we oppose
17 this legislation. While we have a long and proud
18 tradition of supporting efforts to increase the
19 number of Pennsylvanians who have health insurance,
20 we believe that forcing the state's Blue Cross and
21 Blue Shield companies to continue funding the
22 adultBasic program, as this bill proposes,
23 represents the misguided public policy.
24 We believe that all insurance
25 carriers, not simply nonprofit health insurers, and

1 other private and public health care industry
2 stakeholders have a shared responsibility to
3 explore sustainable and fair solutions to deal with
4 the health care needs of uninsured Pennsylvanians
5 and those individuals and families currently in the
6 adultBasic program.
7 Although Pennsylvania has historically
8 had one of the lowest rates of uninsured among the
9 fifty states, recent studies show that the number
10 of people without health insurance is growing at a
11 troubling rate.
12 This issue is very important to
13 Highmark. As a nonprofit company, we have strived
14 to provide coverage to a population that many
15 insurers will not or are reluctant to insure, and
16 to work cooperatively to improve the health and
17 well-being of Pennsylvania communities.
18 We are constantly trying to achieve a
19 very delicate balance between financial stability
20 and upholding the commitment to small groups,
21 individuals, and families who may not have
22 insurance available to them.
23 To quantify Highmark's commitment to
24 the community, I would like to review the past five
25 years from 2005 through the end of 2009. During

1 this period, Highmark provided almost eight hundred
2 million in community contributions, which included
3 five hundred and eleven million dollars to fulfill
4 the commitments under the Community Health
5 Reinvestment Agreement.
6 How was the money spent? From 2005
7 through 2009, three hundred million in cash was
8 provided to the state and used to support the
9 adultBasic program. Another three hundred million
10 has been used to expand access to health care
11 coverage for lower-income families, seniors, and
12 uninsured children under the state's Children's
13 Health Insurance Program.
14 You are going to hear this morning, as
15 an aside, from all the Blues that, in addition to
16 the commitment we're making that CHR, each and
17 every one of us are subsidizing the direct-pay
18 programs. For Highmark in 2009, that number
19 amounted to eighty-nine million. This is in
20 addition to the sixty, sixty-five million in cash
21 we're bringing to the commonwealth every quarter
22 through direct transfers to the state treasury.
23 In addition, Highmark has provided
24 grants, programs, and support aimed at addressing
25 community health needs. Our funding reaches the

1 community primarily through nonprofit partners who
2 are doing important evidence-based work and serving
3 vital needs. Together with our partners, we
4 support programs such as medical and dental clinics
5 for the uninsured, health demonstration projects,
6 and physical fitness programs for children.
7 Moving forward, we will continue to
8 work to address the health care needs of the
9 Commonwealth.
10 I'd like to take a moment to clarify a
11 point that is often a source of confusion, again, a
12 point I think very well amplified by Kim and Bob
13 thus far. Highmark is a not-for-profit
14 corporation, but we also pay taxes. Because of our
15 nonprofit status, Highmark, but not our for-profit
16 subsidiary, is exempt from some state taxes, most
17 notably the state's insurance premium tax.
18 In 2009, the estimated savings
19 resulting from the premium tax exemption was
20 eighty-eight million. So let me be clear, if we
21 were subject to the 2 percent premium tax, like
22 every for-profit insurance company in the
23 commonwealth, we would pay or extend to the
24 commonwealth about eighty-eight million dollars.
25 But like Kim and Bob have done for you, I'm going

1 to put that context in terms of the social mission
2 giving that we're providing.
3 So, in 2009, the estimated savings, as
4 I said, was eighty-eight million for the premium
5 tax exemption, but the premium tax exception must
6 be balanced against the community contributions
7 that our company makes. Last year, for every
8 dollar in taxes not paid because of the premium tax
9 exemption, Highmark contributed one dollar and
10 forty cents. Pretty good return on the investment
11 for the commonwealth.
12 To further amplify the point about
13 taxes, consider this, over the last five years,
14 Highmark and its affiliates paid seven hundred
15 twenty-seven million in federal, state, and local
16 taxes.
17 So if there's anything that the
18 members take from our conversations today, I hope
19 we end this discussion and debate about the Blues
20 don't pay taxes.
21 Any discussion to extend the term of
22 the CHR agreement as the primary funding source for
23 the adultBasic program must be viewed in broad
24 context. Simply put, the environment today is far
25 different, far more complex, and filled with far

1 more financial risk than the one in 2005, the year
2 Highmark and the other Blue plan companies entered
3 into the CHR agreement.
4 The staggering affects of the worst
5 recession since the 1930s has created severe state
6 budgetary pressures. We all understand that. And,
7 of course, many private employers have dropped
8 health care coverage for their employees. As a
9 result, like many other companies, Highmark has
10 lost membership in Pennsylvania.
11 Highmark is also being squeezed by
12 hospitals and physicians who are feeling financial
13 pressure, as reimbursements from government
14 programs continue to lag behind the actual cost of
15 providing new and more complex levels of care for
16 the patients.
17 All too often providers try to offset
18 lower public payments with higher commercial
19 payments, which, in turn, makes health insurance
20 less affordable for employers.
21 In addition to this hidden tax, the
22 private insured also must bear the cost associated
23 with bad debt and charity care provided to the
24 individuals without insurance.
25 The jobless recovery and rapidly

1 changing health care landscape present financial
2 challenges for Highmark as a time when we need even
3 more capital to satisfy the demands of our
4 customers, for goods and services, and to pay the
5 new information technology and abilities to operate
6 more efficiently. We also are incurring the
7 greater costs to comply with the increasing number
8 of government mandates associated with all aspects
9 of our business.
10 As to all of this, also amplified by
11 Kim and Bob, the newly passed federal health care
12 law will place untold requirements on health
13 insurance companies that we only are now beginning
14 to grasp.
15 The law will change the health care
16 system in profound ways: How people will buy
17 insurance, how health care is paid for, including a
18 variety of new taxes and/or expanded taxes, and how
19 government regulates the health care system.
20 An underlying goal for health
21 insurance reform in this new law is -- is uniform
22 rate regulation for all health insurers as a means
23 to promote fair competition in the health insurance
24 marketplace.
25 In contrast, House Bill 2455 appears

1 to favor some insurers over others, by forcing only
2 nonprofit insurers, basically the state's Blue
3 Cross and Blue Shield companies and their
4 customers, to shoulder a larger part of the
5 financial responsibility for sustaining
6 adultBasic.
7 In light of the fragile economy and
8 tremendous state budgetary pressures, you have a
9 difficult decision to make relative to this
10 legislation.
11 This CHR agreement was intended to be
12 only a temporary funding solution to address the
13 needs of the state's uninsured. It should not be
14 viewed has a viable, comprehensive answer to a new,
15 deep-seated question about whether the commonwealth
16 can afford to maintain important programs such as
17 adultBasic, given the financial challenges facing
18 the state.
19 We will continue to meet our
20 obligations under the CHR agreement until it
21 expires at the end of December 2010, but we are
22 opposed to a multiyear extension to the current
23 agreement envisioned by this bill.
24 While Highmark realizes that the
25 commonwealth faces financial pressures in

1 maintaining the adultBasic program, we believe all
2 participants in the public and private health care
3 sectors have a shared responsibility to draft a
4 broad-based, sustainable funding source for
5 adultBasic.
6 I thank you for your attention and be
7 happy to answer your questions.
8 CHAIRMAN DELUCA: Thank you, Mike.
9 Chris.
10 MR. CASHMAN: Good morning,
11 Mr. Chairman, Representative Micozzie, members of
12 the committee.
13 My name is Chris Cashman. I'm from
14 Independence Blue Cross and very pleased to be here
15 with you this morning to discuss House Bill 2455.
16 Independence Blue Cross opposes House
17 Bill 2455, as it would extend an agreement that was
18 always viewed as a six-year commitment. If
19 enacted, 2455 would continue to place a
20 disproportionate and unfair burden on Independence
21 Blue Cross, and it would continue to impose a tax
22 on our individual customers, many of who have lost
23 jobs, and on our group customers, who are committed
24 to offering health care to their employees but who
25 are struggling in this difficult economy with

1 reduced revenues and increased cost.
2 I think, as all of you know,
3 Independence Blue Cross is based in southeastern
4 Pennsylvania. We cover 2.4 million members who
5 live in the Philadelphia region and 3.2 million
6 members nationwide. We employ fifty-two hundred
7 individuals and cover more than forty-five thousand
8 employer groups in southeastern Pennsylvania.
9 We provide our customers with a wide
10 range of health plans. We are active in all lines
11 of business, including individual health plans,
12 small group and large group markets, Medicare,
13 Medicaid, and guarantee issue plans, which we offer
14 to people regardless of their health and which no
15 other insurer in our region offers.
16 One of the factors that most clearly
17 distinguishes us from our competitors is that we've
18 always been committed to building the health of our
19 community, which we call our social mission, work
20 that, at its heart, serves those who are
21 underinsured and uninsured.
22 It was part of that commitment, in
23 2005, that caused to us to voluntarily join with
24 our colleagues, the other three Blue Cross and Blue
25 Shield insurers in Pennsylvania, to enter into the

1 Community Health Reinvestment Agreement. We
2 committed to a defined level of financial support
3 for community reinvestment endeavors.
4 One of the primary goals of this
5 agreement was to have fund -- was to fund
6 adultBasic and other state-sponsored health
7 insurance programs for low-income persons.
8 Since we entered into the agreement
9 five years ago, we've always viewed it as a
10 six-year agreement, one that afforded the
11 commonwealth sufficient time to plan for and
12 identify ongoing funding for these critical
13 programs after the agreement expires.
14 During the term of this agreement, we
15 have not only honored our funding commitment, but
16 significantly exceeded it. From the agreement's
17 inception, IBC has spent approximately four hundred
18 twenty-four million dollars, combination of our
19 commitment under the agreement and other additional
20 community health activities, all work which we
21 consider part of our social mission.
22 Of this amount, we spent approximately
23 a hundred eighty-nine million on the CHIP and
24 adultBasic programs.
25 The vast majority of the remaining two

1 hundred thirty-five million has been used by IBC to
2 subsidize and make more affordable our guarantee
3 issue health insurance plans, which we offer to
4 people regardless of their health. There are
5 plans -- these are plans for individuals who are
6 not only covered by employer-sponsored plans,
7 people who often struggle to provide coverage for
8 themselves and their families.
9 Beyond this, however, in 2010, we do
10 expect to spend tens of millions of additional
11 dollars in support of CHR and our social mission.
12 It's worth pointing out, as my
13 colleagues have, that we spent this roughly four
14 hundred twenty-four million during the term of the
15 Community Health Reinvestment in addition to taxes
16 we paid during this period. In fact, from the
17 inception of the agreement, IBC has also paid two
18 hundred fifty-nine million in Pennsylvania state
19 premium taxes.
20 While we spend roughly four hundred
21 twenty-four million on our social mission and paid
22 two hundred fifty-nine million in premium taxes, we
23 did not realize the tax exemption anywhere near
24 this level of payment. In fact, from the beginning
25 of the agreement until now, we've received a total

1 tax exemption of approximately fifty million
2 dollars, or somewhere close to ten million dollars
3 a year over the last five years.
4 I have attached to my testimony a
5 slide which details the way in which we have broken
6 down not only our CHR obligation, our social
7 mission obligation and state premium taxes that we
8 have paid, but juxtaposed, in yellow, the level of
9 tax increase -- or tax exemption that we've
10 received.
11 Over the five-year period, we spent
12 four hundred twenty-four million in community
13 health purposes or social mission. That's more
14 than eight times the tax exemption that we see. If
15 you add the premium taxes to that amount, we've
16 spent almost fourteen times the exemption that
17 we've received.
18 All of this has taken place in a
19 market where our competitors pay premium taxes, but
20 they're not asked to spend a single dollar to
21 support the state's Community Health Reinvestment
22 activities. All of this has also taken place as
23 the economic climate and business conditions in our
24 region have altered dramatically during the most
25 severe economic decline since the Great

1 Depression.

2 So as we look at the expiration of the

3 agreement in December, you can see the significant

4 impact the agreement has had upon our company, our

5 business, our customers, and our employees, and the

6 unsustainable and inequitable burden the agreement

7 creates on those entities.

8 Moving forward, we recognize the

9 immediate budget implications that result from the

10 expiration of the agreement in the middle of the

11 commonwealth's 2010-2011 fiscal year. While IBC

12 fully understands the adultBasic funding issues

13 created by the expiration of the agreement and

14 supports the public policy goal of reducing the

15 uninsured, neither of these issues were created by

16 IBC or the other Blue plans.

17 For that matter, as much as we might

18 like to solve the challenges of the uninsured

19 ourselves, we cannot solve it alone. Any solution

20 needs the coordinated support and participation of

21 the federal government, the commonwealth, and all

22 health insurers, hospitals, health care providers

23 who do business in the commonwealth.

24 As you consider alternate solutions,

25 I'd like to highlight a couple of points that

1 continue to come up and which were alluded to by
2 the majority leader in a press release that he
3 issued some days ago.
4 I mentioned we're not a charity.
5 Independence Blue Cross is not a charity. And as
6 I've said, we pay taxes. Although our corporate
7 operation is a not-for-profit, we pay local, state,
8 and federal taxes, just like for-profit health
9 insurers in Pennsylvania. In fact, congress took
10 away the Blue plans' federal exemptions in 1986.
11 In 2009, for example, Independence
12 Blue Cross paid 93.9 million in local, state, and
13 federal nonpayroll taxes, including the 52.1
14 million in Pennsylvania premium taxes.
15 While we're not a charity, we are
16 committed to our social mission and serve the needs
17 of our community. We're committed to supporting at
18 least thirty-one nonprofit medical clinics in
19 southeastern Pennsylvania. We're committed to
20 supporting thousands of students who are struggling
21 to pay nursing school tuition, and we're
22 particularly committed to supporting the needs of
23 the uninsured. And, you know, we don't intend to
24 back away from that commitment beyond the
25 expiration of this agreement.

1 I might also say a brief word about
2 our surplus. You know, we're required to maintain
3 a surplus by the Insurance Department. After
4 about -- after nearly seventy-one years of service
5 to our customers, Independence Blue Cross's level
6 of surplus approached 1.6 billion dollars in 2009.
7 That places us squarely within the efficient
8 surplus range defined by the Pennsylvania Insurance
9 Department guidelines, and, frankly, would only
10 allow us to cover roughly sixty days of claims.
11 In fact, I think all of you know the
12 PID is proposing to further strengthen its
13 oversight regarding surplus levels, to make sure
14 that the insurance industry in Pennsylvania does
15 not have the same thin levels of capitalization
16 that led to the disasters in the financial
17 industry.
18 Unfortunately, we are not in a
19 position to extend the agreement for three years.
20 In an effort to help address the immediate budget
21 implications that result from the expiration, I
22 communicated last week to the chairman that, under
23 certain conditions, Independence Blue Cross would
24 be willing to discuss a temporary, six-month
25 extension. This extension would include a limit on

1 IBC's participation that is equivalent only to our
2 tax exemption, unless there is similar
3 participation by all health insurers.
4 We believe, further, that the
5 commonwealth should restore the level of annual
6 support for adultBasic from the tobacco settlement
7 fund at least to the seventy-four million dollars
8 spent in fiscal year 2005-2006. As you know, each
9 year since the Community Health Reinvestment
10 Agreement was signed, the state has reduced dollars
11 allocated from the tobacco settlement fund.
12 This year, in the current fiscal year,
13 I think the funding is at thirty-eight million
14 dollars, and the governor proposed to further
15 reduce funding from the tobacco settlement fund to
16 fifteen million dollars in this budget.
17 So we believe that before looking to
18 other funding sources for adultBasic, the state
19 should first use the tobacco settlement fund, as
20 they were intended, for adultBasic.
21 Contradictory as it may seem for a
22 company that's been dedicated for seventy-one years
23 to build the health of our community through our
24 social mission, we must reluctantly suggest also
25 that the commonwealth freeze further expansion of

1 the adultBasic program, at least until the funding
2 for this important program has been fully addressed
3 by the general assembly.
4 I think all of you know that the
5 governor has proposed in this year's budget to
6 extend that funding from forty thousand to roughly
7 fifty thousand, at a time when there's great
8 uncertainty about the funding viability of this
9 program.
10 Again, Independence Blue Cross has
11 worked hard to be the company of choice for
12 millions of customers living and working in
13 southeastern Pennsylvania who need health care
14 coverage. We look forward to serving the needs of
15 our community long into the future and pledge to
16 work with the general assembly, the administration,
17 and all stakeholders to develop solutions to the
18 challenges of the uninsured.
19 However, it is unreasonable to expect
20 that an issue of this magnitude can be addressed
21 solely by funding from customers of Pennsylvania's
22 four Blue Cross and Blue Shield plans. It cannot.
23 If you codify this agreement as
24 proposed, it will amount to a tax on our members,
25 making health insurance less affordable for those

1 who purchase our plans.
2 In our view, addressing the problem of
3 the uninsured is a Pennsylvania problem, not merely
4 a Blue problem. Accordingly, we recommend against
5 House Bill 2455.
6 I'm also happy to respond to any of
7 your questions.
8 Thank you.
9 CHAIRMAN DELUCA: Thank you, Chris.
10 Thank all the panelists.
11 First person we are going to have ask
12 questions, Representative Schroder. I will forgo
13 the questions as the chairman first.
14 REPRESENTATIVE SCHRODER:
15 Mr. Chairman, thank you. I would gladly yield,
16 seriously.
17 CHAIRMAN DELUCA: No.
18 REPRESENTATIVE SCHRODER: Thank you.
19 Good morning, everyone.
20 First of all, I want to say, I think
21 it's unfortunate that you had to come in here
22 today, you know, to basically defend your company's
23 honor and practices against what I think was a
24 pretty vicious political hit job by the majority
25 leader in the press. And unfortunately, I think

1 that's caused us to get off to a start where we
2 have to do more education about, you know, facts
3 and taxes that are paid and other commitments than
4 actually, you know, discussing how we can actually
5 move forward to preserve and save the adultBasic
6 program.
7 Let me just ask a few clarifying
8 questions. It's been stated that the Blues are
9 nonprofits, yet my understanding, and I think it
10 was mentioned in the testimony, is that legally,
11 Blues are not-for-profit hospital plans or hospital
12 corporations. They are actually exempted, under
13 the Purely Public Charities Act, if I'm not
14 mistaken.
15 Could someone take some time to
16 explain, you know, what the difference between what
17 the two really are and how it impacts this
18 discussion?
19 MS. KOCKLER: This is going to be
20 weak, but I'll do what I can.
21 Yes, we are not -- we are not
22 charities. We do pay taxes, and as Chris said,
23 we -- you know, our federal tax exemption was taken
24 away in the 80s, I believe. We are not -- we are
25 not -- I guess when you look at us, you can say --

1 you know, think of United Way. We are not United
2 Way. Then, on the other end of the spectrum, we're
3 not a company that has shareholders and shareholder
4 meetings. We're in the middle of that.
5 We are not totally tax exempt. We pay
6 payroll taxes. We're like any other business in
7 those respects. The only exemption we have is from
8 state premium tax on our for-profit business -- on
9 our not-for-profit business. So those products we
10 mentioned -- CHIP, adultBasic, insurer-of-last-
11 resort products -- is where our tax exemption
12 lies. That's it. That's the difference.
13 And if someone wants to expound on
14 that --
15 MR. WARFEL: And I think Kim's done a
16 fine job explaining.
17 One other practical example of our tax
18 exemption for someone like Highmark, where most of
19 our business still rests in the large not-for-
20 profit holding company, is the state sales tax.
21 So, Representative, we would not pay the state
22 sales tax on that business and transactions that
23 occur in support of that large not-for-profit
24 holding company-type business.
25 So the sales tax we would be exempted

1 from. As Kim already noted, we would not pay the
2 premium tax. Highmark would not pay the premium
3 tax on our not-for-profit, quote, business, if you
4 will.
5 And I think one other important point,
6 I think all of us are voluntarily paying local
7 property taxes. As the members know, where we have
8 our facilities -- for Highmark, it's substantial
9 facilities across the commonwealth -- we
10 voluntarily pay property taxes. Although, as I
11 understand the law -- I'm not an attorney, none of
12 us are attorneys -- we don't pay property taxes,
13 but we do that voluntarily. We do pay -- we do pay
14 that, but we do that voluntarily.
15 REPRESENTATIVE SCHRODER: And the
16 for-profit subsidiary, as some or all of you might
17 have, you pay the business taxes to the state.
18 MR. WARFEL: Premium taxes.
19 REPRESENTATIVE SCHRODER: Now, it's
20 been talked about a six-billion-dollar surplus. I
21 think I heard, perhaps, Mr. Cashman say that that
22 represents just under two months of surplus. Is
23 that six-billion-dollar figure inclusive of all the
24 Blues sitting there at the table, as far as what
25 the surplus of reserves?

1 MR. BAKER: I'm not certain who came
2 up with the number, but I can say we have between
3 two and a half and three months.
4 REPRESENTATIVE SCHRODER: So two and a
5 half to three months.
6 Is there an -- I guess what goes to my
7 question, is there an industry standard or a
8 federal or state standard as to how many days worth
9 of surplus, how many days worth of claims payments
10 a company should have?
11 MR. BAKER: Well, we're required to
12 meet the standards set by Blue Cross/Blue Shield
13 Association. We're also required to meet the
14 standards set by the Pennsylvania Insurance
15 Department, and this body commissioned the Lewin
16 Group to do an analysis some years back to find out
17 how that fit in -- how we fit in that, and they
18 found that we were all in the proper range for
19 surplus, which you must maintain.
20 An extreme example of why would be in
21 the Louisiana Blue Cross/Blue Shield program. When
22 they had Hurricane Katrina, nobody was paying their
23 bills but the claims were still coming in. And
24 because of their surplus, they were able to meet
25 all their obligations. Hopefully, we'll never

1 experience that type of event, but there are other
2 events that could cause problems.
3 MR. CASHMAN: Representative Schroder,
4 while it may not be etched in stone, I think,
5 generally speaking, the industry standard is that a
6 plan should have a minimum of ninety days or three
7 months. But, I think, you know, it's fair to say
8 that some even -- some in our insurance department
9 have opined recently that there's really no amount
10 of surplus that's too much. And we tend to agree
11 with that, although, as I mentioned, we maintain
12 our surplus to be able to cover roughly sixty or a
13 little less than sixty days, so it's not -- we
14 don't stock pile it. It's -- it's there to cover
15 that level of claims.
16 REPRESENTATIVE SCHRODER: Is there
17 any -- final question I have, was there any
18 expectation, either explicitly stated in the
19 Community Health Reinvestment Agreement or perhaps
20 implied during the negotiations of that six years
21 ago, whenever it took place, that the Blues would
22 continue to fund adultBasic beyond the six-year
23 timeline for that agreement? Like I said, either
24 explicitly or implied.
25 MS. KOCKLER: I would say for us, no.

1 MR. CASHMAN: We are certainly not
2 aware of any notion that we would go beyond the six
3 years.
4 REPRESENTATIVE SCHRODER: Yet, if I
5 understand, as I think I understand your collective
6 testimony, you're willing to continue a commitment
7 to adultBasic, but you just feel that you cannot
8 shoulder the entire burden. Does that sum up sort
9 of the collective message?
10 MR. WARFEL: I can only speak for
11 Highmark. I think we did not specifically address
12 any kind of extension. I think my testimony was
13 clear, we agreed to a six-year commitment, and we
14 will honor the commitment we made when we signed
15 the agreement six years ago.
16 You've heard others here suggest that
17 recognizing the inelegant provision for a timeline
18 for the agreement doesn't really match up with the
19 state fiscal year, and, you know, thinking back to
20 when the agreement was negotiated, I don't think
21 anyone really thought that far ahead in terms of
22 that would create a conflict in terms of the
23 state's fiscal year begins July 1 to June 30, and
24 the agreement's based on a calendar year, and that
25 how to reconcile our contributions annually to the

1 insurance department. So it's sort of based on a
2 calendar year. It sort of matches.
3 The way our fiscal year, as private
4 companies works, we operate on a calendar year
5 fiscal year, and the state, of course, does it
6 differently.
7 So, from Highmark's perspective, I'm
8 not going to foreclose the opportunity that a
9 six-month extension is impossible, but I think that
10 there needs to be a demonstration by the
11 legislature and all the stakeholders that this, as
12 Chris put, is not just a Blues solution but is a
13 commonwealth solution.
14 And, you know, we can -- I mean,
15 you've heard from the collective witnesses here the
16 kind of thought that needs to go into this. Why
17 are we moving less and less money from the tobacco
18 settlement, a program that was designed to support
19 this program? You know, why aren't we looking at
20 reforming benefits? Is the premium of thirty-five
21 to thirty-six dollars a month adequate in today's
22 world? Where can anyone buy a policy for thirty-
23 five, thirty-six dollars a month?
24 So I think, Representative Schroder,
25 that's the kind of creative thought that we may

1 need to go into this debate, not just simply
2 saying, Blues, tag, you're it. And continue this
3 infinitum.
4 MS. KOCKLER: And if I could just add
5 a little bit to that, and I would echo what my
6 colleagues have said, before we take that step we
7 are only asking that we do the homework.
8 We don't really understand, sitting
9 here today -- and if somebody does, I'd like to
10 hear it -- we really don't understand the budget
11 number we're trying to get to either with this
12 program. We are not sure. We understand there was
13 some surplus in that fund at one time. We're not
14 sure where it is now. We don't really know the
15 real number we're trying to achieve.
16 So without knowing the real number
17 we're trying to achieve, and on top of that,
18 putting more and more people into the program at
19 this point, again, I think that is a problem as
20 well. You're continuing to pile people into a
21 program that is on very, very shaky ground. Until
22 we know those things, we're not really willing to
23 go to the end game of extensions or anything
24 further at this point.
25 MR. CASHMAN: And if it's -- if it's

1 okay with the committee, I just want to clarify
2 that what our position at Independence Blue Cross
3 is, it's that recognizing there's this discrepancy,
4 this six months' discrepancy, you know, we're
5 willing to continue to participate to try and help
6 the commonwealth address this -- this unique
7 situation. But we're only willing to participate
8 up to the value of what our tax extension would be
9 for that period of time. We're not saying we will
10 -- we will extend the current agreement. In fact,
11 we are not prepared to extend the current
12 agreement. But we are willing to try and help the
13 commonwealth bridge whatever gap exists for that
14 six-month period.
15 REPRESENTATIVE SCHRODER: I thank you
16 for your comments.
17 Obviously, there are a lot of issues
18 that we have to look at. Certainly want to see
19 those with adultBasic continue to get the insurance
20 that they need. I don't think anyone wants to see
21 them, you know, kicked off of the coverage. So we
22 obviously have our work cut out for us, trying to
23 figure out how to basically extend the program past
24 the six-year agreement that was -- that was entered
25 into, and, hopefully, we'll be able to proceed

1 along with discussions with Blues companies as well
2 as others, taking a look at tobacco fund issues and
3 things like that, to determine a direction.
4 Thank you.
5 CHAIRMAN DELUCA: Let me just ask the
6 panel here. Since it is going to expire -- we're
7 in May already -- and it's going to expire on
8 December 31st. Do you intend to notify the
9 individuals who you insure that they're going to be
10 without coverage end of December 31st? And if you
11 are, when are you going to send out the notices?
12 Have you thought of it?
13 MS. KOCKLER: I think that would have
14 to be done in consultation with the Department of
15 Insurance, because --
16 CHAIRMAN DELUCA: Have you discussed
17 having the Department of Insurance to send out
18 notices?
19 MS. KOCKLER: No.
20 CHAIRMAN DELUCA: Or just say to
21 individuals, December 31st, get a shock, because
22 everybody doesn't read the paper, everybody doesn't
23 get the Internet. They get a shock, they have no
24 more insurance.
25 Is that part -- have you -- are you

1 going to discuss with the administration? So who's
2 working this out, to notify these individuals that
3 they're not going to have insurance? You have
4 forty thousand plus that should be warned that
5 they're not going to have insurance December 31st.
6 Wouldn't that be fair to notify them ahead of time,
7 not to the last month?
8 MS. KOCKLER: There is -- I believe
9 there is a requirement that we have to do that --
10 CHAIRMAN DELUCA: Is there a
11 requirement --
12 MS. KOCKLER: -- in a time certain.
13 CHAIRMAN DELUCA: What is the time
14 certain?
15 MS. KOCKLER: I think there's a thirty
16 or -- I think it's a thirty-day notification that
17 that would happen. But, Chairman, we really hope
18 we don't get to that point.
19 CHAIRMAN DELUCA: We hope, too, but I
20 just want to know. You know, thirty days doesn't
21 seem pretty fair to me for somebody to go out there
22 and try to find some health care insurance. They
23 can't find it.
24 And I think, if that's the thirty
25 days, I would hope that this panel would -- and I

1 will talk to the administration, too, because I
2 don't think thirty days is enough, if we can't come
3 up with some type of agreement.
4 And let me just say this. This is a
5 starting point. You know, you got to give the
6 majority leader credit for his starting the
7 process, because, let's face it, there's going to
8 be a new governor next year and possibly who knows
9 what else. And that governor's going to face a
10 budget deficit, pension crisis, and other things.
11 And, sure, if you want to play
12 politics, we certainly would say, Well, let's leave
13 this up to the next governor, and let him throw out
14 forty to fifty thousand individuals on the street.
15 But that's not what we are sitting up here for.
16 We're sitting up here to be responsible
17 legislators.
18 If we want to play politics, we
19 certainly could do that and say, Hey, let's leave
20 it to the next governor. Maybe -- from all the
21 things that we hear, maybe the next governor comes
22 in and he's here eight years, things turn, and
23 maybe it would be beneficial. But that's not what
24 people sent us to do, so we got to get -- we need
25 to start this process. And that's why -- that's

1 the start.
2 The majority leader's bill is a
3 start. It's not current -- and maybe it is all but
4 trying to work in good faith. I commend every one
5 of you for working in good faith. But we do have
6 to come up with a solution.
7 And I would personally talk to the
8 administration to find out. Thirty days is
9 certainly not acceptable, and we have to give them
10 enough time to let them know that these individuals
11 are going to be without health care.
12 And so, hopefully, you will be working
13 with the administration, too, on that issue.
14 Representative Micozzie.
15 REPRESENTATIVE MICOZZIE: Thank you.
16 Yes, on the issue of surpluses, what
17 seems to be -- has gone back and forth with the
18 administration and the Blues. You alluded to
19 the -- there's a question whether it's ninety days
20 or whatever as far as how much surplus you have.
21 Evidently, the administration has a different
22 opinion, because they seem to -- in a crisis, they
23 go after your surplus.
24 Now, explain to me -- explain to me
25 what is your policy as far as surplus. What goes

1 into the surplus? Surplus means extra money. What
2 is that extra money?
3 MR. WARFEL: Well, in simplest terms,
4 Chairman Micozzie, surplus is basically moneys that
5 are set aside to pay future claims. And so, as
6 Chris described earlier in response to a question,
7 I think generally, and this is Highmark, we try to
8 maintain about ninety days of payments that would
9 be used to pay future claims.
10 Now, it's further monitored by the
11 insurance department with the risk-based capital.
12 The commissioner is up here next, who can far more
13 eloquently describe the risk-based capital
14 monitoring process. But, essentially, the surplus
15 is used to pay future claims.
16 The challenge for you all in the
17 legislature and for the executive branch invested
18 in the commissioner is to balance how much reserves
19 are really required to pay future claims. And if
20 those reserves get too high, do you really owe your
21 customers a refund?
22 To bring that to focus, the federal
23 health care reform law that was just signed into
24 law last month, beginning next year, insurance
25 companies are going to have to publicly disclose

1 how much they're actually spending on medical care
2 and how much they spend on administration. So it's
3 call medical loss ratio.
4 So there will be -- there will be more
5 transparency, and there will be more openness in
6 terms of how those numbers work, Mr. Chairman. And
7 so, I think that will probably settle itself out,
8 because the general public's going to know and
9 employers are going to know just exactly what your
10 medical loss ratio is.
11 And the law says that if medical loss
12 ratio levels aren't met, a certain level, or if
13 they're exceeded, then there will be refunds due to
14 the customers. None of us know how those refunds
15 will work and if those refund come back to the
16 employees in terms of a dividend return, if you
17 will. Are those -- do they come back to employers,
18 in terms of a premium reduction? That all has to
19 be defined.
20 As Kim said, there will be thousands
21 of pages of regulations to deal with all this.
22 But does that help you?
23 REPRESENTATIVE MICOZZIE: That helps
24 me. I understand that point.
25 But what's the disagreement with the

1 administration and the Blues as far as what they
2 consider too much surplus and you consider it's not
3 enough?
4 MR. WARFEL: I think at this point,
5 I'm not suggesting, at least from my perspective,
6 there's a disagreement with the insurance
7 commissioner and his staff as to what our surplus
8 is or should be. We are operating within a limit
9 or a range that was established some years back.
10 So, Mr. Chairman, I don't know that --
11 REPRESENTATIVE MICOZZIE: What
12 happened last year or the year before when they
13 went after your surplus?
14 MR. WARFEL: When that -- when that --
15 of course, that was some six or seven years ago
16 that that --
17 REPRESENTATIVE MICOZZIE: Time flies.
18 MR. WARFEL: It does. And how that
19 was resolved, Mr. Chairman, was that the
20 commissioner established a risk-based capital
21 monitoring system that really was recommended and
22 formed by the National Association of Insurance
23 Commissioners. And you all passed legislation that
24 actually gave him the tools to do that financial
25 solvency monitoring.

1 So I suggest to you, respectfully,
2 I -- from my perspective, I don't know that there's
3 a disagreement between Highmark and the
4 commissioner with surplus.
5 MR. BAKER: The surplus also serves
6 other functions. For example, we want to put a new
7 computer system in to make us more efficient,
8 because one of our goals, of course, is to get
9 physicians and hospitals paid on time, that has to
10 come out of that money there. If we -- if we would
11 need to build a new building, it has to come out of
12 that money there.
13 Again, we can't float stock, because
14 we don't have stock. So it serves a lot -- if we
15 misjudge, if our actuaries make an error and all of
16 a sudden we lose money where we thought we were
17 going to make it. That's got to come out of
18 there.
19 So, you know, it serves a lot of
20 purposes and not just -- and not just to -- in case
21 of a severe incident?
22 CHAIRMAN DELUCA: Representative
23 Shapiro.
24 REPRESENTATIVE SHAPIRO: Thank you,
25 Mr. Chairman.

1 Kim, you had testified earlier about
2 the outdated model, I think is what you referred to
3 adultBasic as. In some of the other testimony
4 today, obviously we heard about concerns from
5 across the panel about continuing on with the
6 approach that's in the house bill that the leader
7 put before us.
8 Putting aside how it is funded and for
9 how long it is funded, putting aside that for a
10 moment, I guess my question is, sort of touching on
11 your outdated model point of view, is this even the
12 right way for us to go about helping those who need
13 a helping hand from the government to purchase
14 health insurance, in the sense that are we
15 maximizing the dollars, whether it's your dollars
16 or someone else's, utilizing this model? Is there
17 a different model that you'd suggest approaching?
18 I don't want to come at this problem
19 from a standpoint of, where do we find funding, if
20 the foundation upon which we're doing this is
21 flawed. And my sense from the comment that you
22 made was, that wasn't a throw-away line. You truly
23 meant that, and it is flawed.
24 So maybe you could dive a little
25 deeper into that and talk about that and maybe this

1 committee can address that going forward.
2 MS. KOCKLER: Sure. I'd be happy to.
3 What we mean by that is, and the very
4 name of the program adultBasic, the benefit package
5 is not basic; it's quite good. It's -- when you
6 compare to what we have in -- we sell to commercial
7 customers today, it's a good benefit package. It's
8 very rich, in a sense.
9 There is -- until March 1st of this
10 year, there was no cost sharing in this program,
11 other than your thirty-five, thirty-six dollars you
12 paid. You paid no co-pays. You didn't -- you
13 didn't cost share as much as commercial --
14 whoever's insurance you have, whatever company you
15 have, you have costs, sharing. You have tiered
16 pharmacy benefits, different cost sharing. There
17 was none of that.
18 So there are ways, I think, we can
19 apply what we've learned commercially to this
20 program, as well as, you know, I think we do need
21 to scale it down, scale it back, and stop putting a
22 lot more people in and releasing, you know,
23 thousands of people off waiting lists at this
24 point, because of the unsurity.
25 I'd like really to get a handle around

1 the modeling, the options for maybe sliding scale
2 premiums, maybe thirty-six and a fifty and -- I
3 mean, there are a lot of options you can talk about
4 to make the model work better.
5 But, again, you're looking at -- what
6 we're looking at today is, you know, we need to
7 fund it. But you're absolutely correct, we really
8 feel, if you looked at the parameters of the
9 program itself and how it was formulated and how it
10 runs, maybe there is some room there to make this
11 more efficient.
12 REPRESENTATIVE SHAPIRO: Are there any
13 other thoughts from any of the panelists on that?
14 MR. WARFEL: I would just add,
15 Representative Shapiro, I know that on the senate
16 side of the building, there -- I think just
17 yesterday a high-risk pool bill was passed and it's
18 coming to your committee.
19 REPRESENTATIVE SHAPIRO:
20 Representative Kotik is doing that here in the
21 house.
22 MR. WARFEL: Yes. And so -- and so a
23 state-based, high-risk pool potentially is a
24 solution that you should consider.
25 Another solution is a temporary high-

1 risk pool that the federal government is bringing
2 to the state as an option, along with federal
3 health care reform, which has provided the
4 commonwealth a hundred sixty million dollars, we
5 understand, until 2014.
6 And you may actually think outside the
7 box and think that the current adultBasic health
8 insurance model that you're offering maybe should
9 be changed. Maybe we need to think about a
10 catastrophic hospital plan, or -- I mean I
11 appreciate -- if you're question is, you're not
12 necessarily committed to the current benefit design
13 and perhaps we should look at some other ideas,
14 then, yeah, I think that's certainly worth a look.
15 REPRESENTATIVE SHAPIRO: Let me be
16 clear, Chris. I'm sorry to cut you off. But let
17 me just be clear. I'm not saying I'm not committed
18 to the current program. What I'm saying is, if
19 there's a finite amount of dollars out there,
20 that's essentially what you're saying, there's a
21 finite amount of dollars, and, you know, we don't
22 want to be on the hook for all of it, the way that
23 this legislation suggests.
24 What I'm wondering is if we can get
25 whatever dollar you're putting into the system to

1 be maximized and be more efficient at it. That
2 sounds like Scott Boyd, but -- my friend, Scott
3 Boyd. But I guess, as we are looking at the
4 funding mechanism, what I'd like to hear more from
5 you about today and going on is, you know, how can
6 we or what would you suggest we do to the
7 underlying parameters of the program to make it
8 more efficient, to make those dollars go further?
9 So I don't want anybody to think that
10 I'm walking away from the adultBasic, I'm certainly
11 not, but I just want to make sure the program's as
12 efficient as it can be.
13 Chris, I'm sorry. I may have cut you
14 off.
15 MR. CASHMAN: Well, Representative
16 Shapiro, all I would say is -- your question is
17 really the important question. I mean, as -- as we
18 sit here today trying to solve a funding issue,
19 unfortunately, we've not challenged ourselves, I
20 guess, to focus on the broader question of what's
21 the "it"? How do you define the "it" that we're
22 trying to challenge?
23 And as we sit here today with this
24 discussion and with the discussion occurring on the
25 other side of the chamber about high-risk pools and

1 as we sit here and think of the future and look
2 into the future and see federal health care reform
3 come, I think it is the time.
4 It presents us with an opportunity to
5 think about, you know, whether the package, whether
6 the adultBasic program that we all proudly
7 supported over the last five, six, seven years,
8 even before this agreement, and will support in the
9 future to some extent, whether it's really the
10 right program for -- for those who need it the
11 most.
12 And we're willing, obviously, to
13 continue, as we always are and I think all of us
14 are, to help the general assembly and
15 administration think about ways to address this
16 issue.
17 But I think if we have a message here
18 today, there's really nothing that separates us any
19 longer from our for-profit brothers and sisters.
20 They should be at the table, too, helping to --
21 helping to solve this challenge that we have all.
22 REPRESENTATIVE SHAPIRO: I agree with
23 that.
24 Just one final question, if I could
25 ask, Mr. Chairman. You and Mike had each talked

1 about the high-risk pool maybe being an avenue
2 here. I mean, my understanding -- I may have this
3 wrong, I don't think I do -- is that you have to be
4 uninsured to get into that high-risk pool. How
5 would you propose we, you know, meet that gap
6 there?
7 MR. WARFEL: Yeah, I think -- let me
8 be clear, Representative. When I use the term
9 "high-risk pool," there are two types of risk
10 pools. There are state-based risk pools that have
11 been in place in many states, well over thirty, I
12 think, for years. That's certainly an approach
13 that you all can take, as you look to find ways to
14 provide benefits between now and 2014, when these
15 health-based exchanges come into vogue with the
16 health care reform bill.
17 Under the temporary federal high-risk
18 pool, it specifically says in the law that you must
19 go there for six months before you are eligible for
20 the benefits. Creates another challenge.
21 But you really, I think, respectfully,
22 need to think about, there are two high-risk pool
23 concepts on the table here. There are state-based
24 risk pools, which will have their own funding
25 challenges, where to find the money to fund it.

1 And then there's a temporary high-risk pool.
2 And then the real rhetorical question
3 is, what happens to the high-risk pools come 2014?
4 Do you still maintain a state-based risk pool or
5 not? I mean, these are -- we don't have answers to
6 those questions.
7 REPRESENTATIVE SHAPIRO: Hopefully,
8 with the expanded Medicaid, that would address
9 that.
10 MR. CASHMAN: The only thing I would
11 add -- and I know we want to move on here -- is
12 that under the federal high-risk pool, in addition
13 to being uninsured, you have to have a preexisting
14 condition. And, you know, I think some of us
15 believe that the adultBasic waiting list provides
16 fertile ground for identifying people that would
17 qualify for both of those -- both of those
18 criteria.
19 REPRESENTATIVE SHAPIRO: Thank you.
20 Thank you, Mr. Chairman.
21 CHAIRMAN DELUCA: You're welcome.
22 Representative Killion.
23 REPRESENTATIVE KILLION: Thank you,
24 Mr. Chairman. And I will be brief.
25 First want to thank you for your

1 testimony. As you walk the halls, and we're all
2 worried about not putting forty thousand people off
3 the adultBasic, you guys have become an easy
4 target. You heard the majority speaker make a
5 point, you have a six-billion-dollar surplus.
6 In testimony before the Appropriations
7 Committee, insurance commissioner came out that you
8 didn't pay taxes. I want to thank you for
9 dispelling those myths.
10 I'm worried about jobs, like
11 Representative Micozzie. The Blues last year, IBC
12 lost seventy-nine million, nine hundred people
13 less. Times are difficult. When you signed this
14 agreement, the Dow was on its way to fourteen
15 thousand. So you're clearly not getting the same
16 returns.
17 What do you see happening if you have
18 to do this? You're either going to have to
19 decrease costs by laying off people or increase
20 premiums. Is that an accurate statement? Is there
21 any other way to go?
22 MS. KOCKLER: I think this does get
23 added to our customers' bills, at this point. It's
24 an add-on now.
25 We may have been able to do this

1 without charging customers in the past. We are in
2 a different position than 2005. This is only
3 speaking for our company. But we will have to pass
4 this on now.
5 The federal reform is staring us in
6 the face, and all the other things we have to do,
7 and the surplus being much less than it was,
8 there's really not any other way to do this than to
9 build it into premium. And I think we all are
10 looking at efficiencies in terms of the number of
11 people we employee at our company at this point.
12 MR. WARFEL: And if I may,
13 Representative, I think one additional thought, as
14 I mentioned in my testimony, we spent -- in 2009,
15 we spent almost ninety million subsidizing, that is
16 buying down premium rates for direct pay
17 customers. So this is Medigap rates for seniors,
18 those kinds of things.
19 There is only so much money at the end
20 of the day that we can drive into these programs.
21 So there's probably an area, that ninety million or
22 so that we're voluntarily, you know, offering on
23 the table through our direct subsidies, we'll be
24 challenged to maintain that effort. So that's
25 going to obviously impact your constituents across

1 the board as well potentially.
2 MR. BAKER: And I would just say, your
3 statement is accurate.
4 REPRESENTATIVE KILLION: Thank you.
5 And as you look at the employment in
6 our region, Philadelphia, forty-nine hundred people
7 from IBC; in Delaware County, twenty-four hundred,
8 a hundred fifty-six of them live in my district.
9 So we all want to solve this problem. We want to
10 protect the forty thousand people that have been
11 added to adultBasic but not at a cost that's
12 inappropriate.
13 I think we need to work together, both
14 sides of the aisle, to come up with a solution so
15 we can solve this problem.
16 I do have to say, though, we are
17 hearing "crisis," this "crisis." We've got the
18 12/31 cliff where the forty thousand people are
19 going to fall off. My definition of crisis is
20 something that happens all of a sudden that you
21 didn't anticipate.
22 This agreement was entered into in
23 2005, with an expiration date of 2010. It's not
24 like we didn't know this was coming. And I think
25 the administration should have been working on this

1 a whole lot sooner, and at the same time, shouldn't
2 have been adding more and more people to adultBasic
3 when we didn't have a solution.
4 And now we're in the middle of a major
5 financial crisis here in the commonwealth. And I
6 mean, I sit on the Appropriations Committee. The
7 numbers are mind boggling, the deficit we're
8 looking at, and it doesn't seem to be getting any
9 better right now.
10 And I think we need to make sure that
11 whatever we do, whatever we do, we don't hurt
12 employers in Pennsylvania.
13 And I want to also thank the Blues.
14 IBC has been a great corporate citizen in the
15 southeast, as the others have been in
16 Pennsylvania. But I think we all need to work
17 together so the burden just isn't put on you to
18 fund this program, as it has been for the last five
19 years, and that we find the solution where we all
20 pitch in and make sure we keep those forty thousand
21 people covered.
22 Thank you.
23 CHAIRMAN DELUCA: Just so, in my mind,
24 I have this right, if forty thousand people go off
25 the uninsured rolls, I mean go off adultBasic, does

1 our premiums go up for anybody if they happen to
2 increase the people going into the emergency
3 rooms? Do we -- do you have to pay for that? Do
4 you raise premiums on individuals for uncompensated
5 care? Or do you -- I mean, you pay the hospitals
6 more because of the fact, and to recoup that, you
7 would have to raise premiums; am I correct?
8 What is built into that premium right
9 now for uncompensated care? About 9 percent?
10 MR. WARFEL: Mr. Chairman, I don't
11 know what the actual percentage is.
12 CHAIRMAN DELUCA: There is a
13 percentage built in, am I correct, if there's --
14 MR. WARFEL: Uncompensated care is
15 certainly a factor in terms of premiums. In some
16 areas, obviously, uncompensated care is going to be
17 higher in center city Philadelphia than it is going
18 to be in certain other areas of the commonwealth,
19 so, yes, it's part of the premiums.
20 CHAIRMAN DELUCA: What I'm trying to
21 say, Mike, is the fact is that if we don't do
22 anything, you're going to raise -- as
23 Representative Killion said, he's worried about the
24 employers -- we are going to raise the rates.
25 There's no two ways about it, because you're not

1 going to be able to absorb more money that the
2 hospitals are not going to absorb.
3 So let's not think it's a free lunch
4 out here. If we just put these people off, we
5 don't have to pay anything. And that's not going
6 to happen.
7 MR. BAKER: I don't think,
8 Mr. Chairman, any of us are suggesting that we put
9 these people off.
10 CHAIRMAN DELUCA: No, I understand,
11 Bob. I just want to bring that to the --
12 MR. BAKER: We're sympathetic to them.
13 I don't know how you show relationship between the
14 two that you're describing, but we're sympathetic
15 to this.
16 At the same time, we signed the
17 agreement. We lived up to the agreement.
18 CHAIRMAN DELUCA: I understand.
19 MR. BAKER: And this is, as
20 Representative Killion said, this is not something
21 new, and we think that there's possible solutions,
22 but it's got to involve everybody.
23 CHAIRMAN DELUCA: I understand.
24 Representative Pashinski.
25 REPRESENTATIVE PASHINSKI: Thank you,

1 Mr. Chairman.
2 And thank you all for your testimony.
3 I have heard some very good things
4 here today. One, Representative Shapiro indicated
5 that he sounded like Representative Boyd. I may
6 end up sounding like that too, just as long as I
7 don't look like Representative Boyd. He's my gumba
8 so we can give each other a jab.
9 So I've heard a number of things
10 here. I realize that you pay taxes. I heard the
11 word "compromise." I heard the statement "shared
12 responsibility." Everybody should be a part of
13 this, public and private. And I've heard the terms
14 that we're in severe economic decline, which is the
15 one thing, Representative Killion, that nobody
16 plans for.
17 Prior to the economic decline, you
18 know, things were looking pretty rosy. And we had
19 a business model in 2007 totally unlike the
20 business model that you have to have in 2010.
21 But as we look at each other in
22 this -- in this beautiful room, we are the
23 proverbial rats in the same ship that is sinking.
24 And albeit the governor maybe should have started
25 sooner, by the fact of the matter is, anybody in

1 this business knew that we were approaching the end
2 of this program.
3 The question that I have is, what is
4 your proposal? You've indicated that you're
5 willing to compromise. You've indicated that
6 you're willing to pay the portion of your
7 exemption. The question is, how do we take that
8 adultBasic and bring it to a practical plan so that
9 it covers the basic things that people need and
10 allow more people to get on it?
11 MS. KOCKLER: I would -- I would say,
12 in terms of a proposal, I think we need to start
13 with the number. We don't know what number we're
14 trying to achieve. So as soon as we know what
15 numbers, I mean dollars, how much money do we need
16 from January 1st to June 30th, ostensibly, first of
17 all, to get through this hole or gap, whatever you
18 want to call it, that's caused by the agreement
19 expiration itself? We are not clear on that.
20 And in the meantime, I think we do
21 have the discussion about the program model. Can
22 there be different levels of premium payments? Can
23 there be a sliding scale premium? One person may
24 still pay thirty-six, one person pays -- can you do
25 that? Can you impose different levels of cost

1 sharing that brings down the premium?
2 You know, those are some of the things
3 you can consider in the model itself, before you
4 get to, you know, we're going to attach customers.
5 REPRESENTATIVE PASHINSKI: But that's
6 exactly the point that I'm making. That's the
7 discussion that needs to be happening immediately.
8 What kind of proposals can be made by you? You're
9 the experts. You deal with this every day. You
10 know what each policy can provide. Your statistics
11 indicate what the majority of the people, what
12 services do they need. How do we change that model
13 that Mr. Shapiro was talking about so that we can
14 create some other options to give basic health care
15 to people in Pennsylvania without breaking the
16 bank? What do we have to do?
17 MR. BAKER: There's some other things
18 that we believe need to be done. For one, change
19 proposed in this legislation, would change it from
20 a 60/40 program, where 60 percent goes into
21 adultBasic and 40 percent is used for other
22 activities, to 95 and 5, which would mean we would
23 be in a situation where we would have to raise
24 rates just to continue to underwrite programs like
25 CHIP and so on, subsidize programs like CHIP and so

1 on and our public contributions.
2 So we would like to see it go back to
3 the original 60/40. We believe that all of our --
4 all of the insurers, all health insurers in
5 Pennsylvania should have participated in this. Our
6 competitors, other than Independence, or -- excuse
7 me -- Highmark, don't. And we believe they should
8 have to be a part of this.
9 And we also believe that -- that it's
10 important that the money that has been put into the
11 program in the past from the tobacco settlement
12 fund return to its original levels, the seventy-
13 four million that they started with, and not
14 reduced down to the fifteen million that is
15 proposed this year.
16 Just last year, it was thirty-seven
17 million, been cut from seventy-five down to thirty-
18 seven over a period of years. Now they want to cut
19 it down to fifteen and to redirect that money to
20 another program. We understand the reason for it,
21 but that's not acceptable in terms of trying to
22 solve this problem.
23 REPRESENTATIVE PASHINSKI: And that I
24 appreciate very much.
25 I wonder if it might be a possible

1 suggestion if we create a voluntary panel of people
2 willing to sit down with the insurance companies
3 and see whether or not we couldn't begin to devise
4 some short-term and long-term solutions,
5 Mr. Chairman.
6 CHAIRMAN DELUCA: Pardon me?
7 REPRESENTATIVE PASHINSKI: I'd like to
8 volunteer to be on an independent negotiations team
9 to develop a new plan for the future of people in
10 Pennsylvania.
11 CHAIRMAN DELUCA: We'll certainly
12 discuss that.
13 REPRESENTATIVE PASHINSKI: Sound good?
14 CHAIRMAN DELUCA: Sounds good, but
15 we'll certainly discuss that.
16 REPRESENTATIVE PASHINSKI: Thank you.
17 CHAIRMAN DELUCA: Representative Boyd.
18 REPRESENTATIVE BOYD: In the interest
19 of time, Mr. Chairman, move on.
20 CHAIRMAN DELUCA: Anybody else, in the
21 interest of time?
22 I've got a question, in that case.
23 REPRESENTATIVE PASHINSKI: Sorry,
24 Scott. You had your chance.
25 CHAIRMAN DELUCA: Representative

1 Barbin.
2 REPRESENTATIVE BARBIN: I have a
3 question. Is it true that the amount that was
4 required by all the Blues last year was a hundred
5 seventy million, give or take, as your commitment
6 to this agreement that you entered into
7 voluntarily?
8 I know each of you paid different
9 amounts, but was the total approximately a hundred
10 seventy million dollars? Because your testimony
11 today is that, for the next year, you're only
12 willing to pay seventy-four million, and that the
13 tobacco settlement funds need all come back.
14 My question, given Mr. Warfel's
15 testimony that we're in a fragile economy, and the
16 Chairman's statement that we have forty thousand
17 people that are going to be pushed off the rolls,
18 and Mr. Killion's statement and Mr. Pashinski's
19 statement that we're in a fragile economy, how can
20 you not continue this agreement for at least the
21 2011 year, regardless of what you negotiated
22 before?
23 Because we're sitting, at the moment,
24 where we're either going to come out of the
25 recession or we're not. And if you take these

1 people off the rolls, and you throw them into the
2 emergency room, the state, as a whole, as the
3 economy is going to be a whole lot worse.
4 Now, there's a six-billion-dollar
5 surplus that's spread out among all four of your
6 companies, and all four of your company have a
7 privilege in Pennsylvania to have a particular
8 area, through your franchise agreements with the
9 national group in Chicago. You have a privilege.
10 And we don't tax that privilege.
11 Why shouldn't you continue this
12 agreement for one year, in accordance with your
13 social mission, so that whoever is the next
14 governor and whatever that general assembly decides
15 to do to share the appropriate burden among all
16 insurers, among whoever, can be done without the
17 threat of losing forty thousand people, who are
18 going to have to run off to the emergency room? It
19 just doesn't make sense.
20 It looks to me like you're the kid at
21 the dam where the dam's about ready to flood, he's
22 got his finger in the dam, and he says, Why don't
23 we make an agreement to stay here for an hour?
24 Now, I'm taking this finger out the dam. The rest
25 of you guys are in a lot of trouble.

1 Isn't that what you're saying, if you
2 say you're only going to pay seventy-four million,
3 because that was the deal?
4 MR. BAKER: Representative, according
5 to the budget that was put out by the
6 administration, if you look at expenditures for the
7 2009-'10 year, which, of course, has not yet ended,
8 they estimate that the CHR portion will be a
9 hundred almost thirteen million dollars, the
10 tobacco portion will be approximately thirty-eight
11 million, and there'll be an ending -- a balance in
12 the account of about thirty-five million.
13 In respect to the rest of your
14 question, I think the testimony we gave in terms of
15 the taxes we pay already responds to that.
16 MR. CASHMAN: And, Representative,
17 respectfully, I would submit, using your analogy,
18 that six years ago, we were the people who saw the
19 dam about to break, who willingly volunteered to
20 stick our finger in it. And we looked around and
21 we waited for one year, two year, three, and we
22 kept our finger in the dam. We kept our finger in
23 the dam, as our customers were being asked to pay
24 more and more.
25 Our finger's still in the dam. All

1 we're saying today is, we're getting tired. It's
2 not sustainable. We can't continue to do this.
3 We understand the state has an issue.
4 We're, as always, willing to be at the table to
5 discuss how we resolve that issue, but our fingers
6 are getting tired, and we need some help.
7 REPRESENTATIVE BARBIN: Mr. Chairman,
8 if I could just respond one second to that.
9 I read your testimony. You do more
10 than any of the other groups through community
11 health services to provide for those forty thousand
12 like people. But I'm asking you, given the economy
13 of the country, doesn't it make sense to hold your
14 finger in there until the end of 2011, so that
15 these people don't get pushed in the emergency
16 room?
17 MS. KOCKLER: And, Representative,
18 understand that the economy is, in the large part,
19 why we're having the discussion, because when we do
20 this, and if we sign up and extend or whatever, our
21 customers that buy health insurance are going to
22 pay for that. That is a whole 'nother -- those
23 people are going to pay for this. We're not --
24 this isn't a pass-through. Someone is going to pay
25 for it in their premium.

1 CHAIRMAN DELUCA: I'm going to -- I
2 know that we're on a tight time schedule. I hate
3 you cut you off, Representative.
4 I want to thank each and every one of
5 you for your testimony and certainly your
6 willingness to work with us, and we look forward to
7 working with you.
8 MR. CASHMAN: Thank you,
9 Mr. Chairman.
10 CHAIRMAN DELUCA: Commissioner -- next
11 person to testify is Commissioner Ario.
12 Welcome. Good morning, Commissioner.
13 COMMISSIONER ARIO: Good morning,
14 Mr. Chairman, members of the committee.
15 For the record, my name is Joel Ario.
16 I'm the insurance commissioner for the state of
17 Pennsylvania. I will be brief in my comments so I
18 can answer some questions as well.
19 Let me start by saying, I'm not here
20 to bash the Blues. I have been consistently
21 impressed with all four Blue Cross/Blue Shield
22 organizations. In my three years here, they've
23 stepped up to a number of important challenges.
24 They're stepping up right now on the temporary
25 coverage under the federal law to get us to 2014.

1 They did step up on this programming
2 burden. It's a deal that was made before I got
3 here, but I think it was a very important deal, and
4 it was made in 2005, and I hope we can have a
5 continuation of some sort on that deal to continue
6 to protect the adultBasics program.
7 I won't dwell on the history of that
8 contract because it has been covered well by
9 others. I'll make three general points. A, this
10 program is still necessary. B, I think 2455
11 represents a reasonable approach to the problem.
12 I'll explain why. And then three, I think there is
13 room to talk about alternatives on 2455 as well.
14 The program is still necessary. The
15 majority leader spoke out eloquently on this issue,
16 I think. When I came here, the program served
17 something like fifty-five thousand people and had
18 something less than a hundred thousand on the
19 waiting list. Today, it serves somewhere in the
20 low forties, so we will, I think, in any event,
21 never get back to the number that was served when I
22 got here only three years ago, which is fifty-five
23 thousand, roughly. I think it got up as high as
24 fifty-seven thousand. And certainly that waiting
25 list that was under a hundred thousand is now four

1 hundred thousand, is testimony to the need for this
2 program in the state.
3 If we have time today, you're going to
4 hear from some, I think, community representatives
5 who will tell you about that need, but I can tell
6 you that every one of those four hundred thousand
7 people on the waiting list translates to somebody
8 who could tell a good story here about very
9 specific, very important medical needs that they
10 have and the way in which it haunts their life when
11 they don't have the coverage. They make it
12 vital -- absolutely vital that we find a solution
13 to this problem.
14 I think 2455 is a reasonable approach.
15 I heard -- I thought it was good dialogue that the
16 committee had with the four Blue Cross/Blue Shield
17 representatives today. I've worked with all of
18 them, and I think they're fine people, and they're
19 doing what they think is right here in terms of
20 what they present. But I do think they're a bit
21 selective in the paths that they give you.
22 First of all, the testimony suggests
23 that it's a state of uncertainty in the federal
24 reform. This is kind of more of a problem than a
25 solution to them. If you look at the stock market

1 and what it's done to insurance companies since the
2 federal reform passed, the stock market has
3 indicated quite clearly, this is a good deal for
4 insurance companies. And it's even a better deal
5 for the nonprofit insurance companies, especially
6 the Blue Cross/Blue Shield companies in this state
7 and where they're situated.
8 Why? Because we're going to have
9 thirty million new customers. What business in
10 America has the federal government hand them thirty
11 million new customers? And not just thirty million
12 new customers, hundreds of billions of dollars a
13 year in subsidies to those customers. That's going
14 to be a million new customers in this state and
15 billions of dollars of subsidies to pay the
16 premiums that the insurers are going to charge.
17 This is a windfall. It is going to be
18 a tremendous boon to the insurance industry. I
19 mean, they have some obligations on that. Yes,
20 they do. But they are going to prosper under those
21 reforms. And particularly the Blue Cross/Blue
22 Shield plans will, because they have the dominant
23 share of the market in this state. So I'm just --
24 basically astonished that, the federal reform, as
25 presented, they think it's a real threat and a

1 challenge. It's, in fact, a very important
2 contributor. And it's why, by the way, the
3 insurance industry was in strong support of this
4 bill up until the very end.
5 There are a few things they don't like
6 in the bill, yes, but on the whole and on the main,
7 you see in the insurance industry, and I'll say,
8 it's to their credit, since the reform passed,
9 stepped up on a number of issues. They could have
10 said that the children's pre-existing condition,
11 didn't say guarantee issue, right now, so we're not
12 giving guaranteed issue right now. But the
13 presence of 26 didn't say kids coming off this year
14 in college get it. This law doesn't take effect
15 until September, so we're not going to give it to
16 them.
17 The insurance companies have
18 consistently stepped up, since the reform passed.
19 Why? Because they do recognize the good deal
20 here.
21 So that's -- I think that's the
22 broadest context you bring to this issue as we're
23 talking about getting from here to 2014, when
24 things will get very, very good for the Blue
25 Cross/Blue Shield plans in this state.

1 Secondly, there have been a number of
2 economic setbacks for everybody in the last couple
3 years. I'm not going to pretend that the economy
4 didn't go in the ditch for the health insurers,
5 just like it did for everybody else in 2007, 2008,
6 and into 2009. But it went less in the ditch for
7 the health insurers than almost anybody else.
8 You've heard kind of selective use of
9 the facts about where revenues are. In fact,
10 premium revenues are up, because the customers that
11 have been lost and the number of people that have
12 gone on uninsurance are more than made up for by
13 rate increases on the people who stayed in the
14 market for some of the reasons you suggest.
15 So every single one of these plans has
16 more revenue, premium revenue, today than they had
17 in 2005, and in most cases, considerably more.
18 Surplus, it was five billion aggregate
19 in 2005. You heard one company, NEPA, testify to
20 what its surplus had gone down from four hundred to
21 two fifty. You didn't hear it from any of the
22 other three. Why? Because their surpluses all
23 went up since 2005. So six billion dollars in
24 surplus.
25 I don't know if Representative

1 Schroder -- I guess he's still not here. I did say
2 in front of the budget committee, that from a
3 financial perspective, there's never too much
4 surplus. My finance guys beat that into my head
5 every day. There is never too much surplus.
6 Things can always go wrong in the insurance
7 business and they often do. And, so, there really
8 is a desire, I think, from my financial guys, to
9 always have that surplus bump up and up and up.
10 On the consumers' side, which is our
11 other duty, people that run the adultBasic program,
12 the CHIP program, the people that take consumer
13 complaints, there's the desire to say, Let's keep
14 that surplus as thin as we can, consistent with
15 good principles, so that we can put probably more
16 money, as Mike Warfel said, I think, back into the
17 cheaper premiums.
18 So there's always a tension between
19 those two concepts, but the six billion that they
20 have in surplus is considerably more,
21 proportionally, than any of the other charities
22 have in this state. And there's a reason for
23 that. Nonprofits have less access to capital, so
24 they hold higher surpluses, but they hold
25 considerably higher surpluses than any of the

1 for-profits in the state. And they also, on a RBC
2 basis, are all comfortably above the minimum
3 requirements. In, I think, all but one case, more
4 than double the minimal requirement.
5 Does that mean that we have a lot of
6 surplus to just go in there and take? No, we
7 don't. We have to be very, very careful with
8 that. But, again, five billion dollars when the
9 deal was entered into, six billion dollars today.
10 So the overall story, from my
11 perspective, is things took a little dive in the
12 middle here, but basically these companies,
13 compared to almost everybody else, have done quite
14 well over the last five years, increased business,
15 increased revenue, increased surplus, and looking
16 at a bonanza, really a bonanza, I think, in 2014.
17 And again, I'm not saying it because I
18 think it's bad. I was a strong supporter of that
19 bill. I think we do want everybody in, and I think
20 we want the private insurance companies serving
21 those people, but it's going to be to their
22 advantage.
23 So for those reasons, I think we ought
24 to be somewhat skeptical to hear that there really
25 isn't anyway we can find away to get from here to

1 2014.

2 Last comment on this line is, there
3 was a lot of talk about how the deal was temporary
4 in 2005, and everybody anticipated some other
5 solution by 2010. I did not hear that from anybody
6 when I came to the state, and that included some of
7 the Blues. The story I heard was that the deal was
8 to get us to reform.

9 And when I came, in 2007, everybody
10 thought that was going to be Pennsylvania health
11 reform. The governor denounced his plan, and there
12 was a lot of fanfare and a lot of support for that
13 plan at that time.

14 Health care, being as difficult as it
15 is, that support eroded, and we didn't get the
16 state plan. But that was the idea. This was a
17 bridge to state reform. And if we were here today
18 without the federal reform having passed, I would
19 say we're in a world of hurt. A, we wouldn't have
20 that windfall up the road for the Blue Cross
21 plans. And, B, we would have, then, an endless
22 kind of demand for something like adultBasic.

23 We did get the federal reform this
24 year. So now we just have a little bit more
25 bridge. And I think if anybody would have said, in

1 2005, We're making a five-year deal, but if, at the
2 end of those five years, we've got a comprehensive
3 solution that's going to cover all the people that
4 are currently in adultBasic, either through
5 Medicaid or through a new -- the new insurance
6 exchanges, do we want to go off the cliff for a
7 couple years before we get to that reform in 2014?
8 I don't believe anybody would say yes. The plan is
9 let's just go off the cliff for three years before
10 we get to the reform.
11 So this is a plan to get us to the
12 reform. So that's, I think, the reason why we
13 should be here and why we should be engaged.
14 Now, are there other alternatives? I
15 think that the Blues spoke well to the issue of
16 whether we ought to ask whether other carriers
17 should be involved in this program, and I heard a
18 number of people on the committee support that. I
19 think the governor said, in his budget address,
20 that this could be a program for the Blues and for
21 other insurers.
22 That's an open offer. We just haven't
23 seen any proposals. And we've asked for proposals,
24 but we just have not seen a good proposal. I think
25 IBC did write a letter last week, which was

1 encouraging, starting to suggest a route forward,
2 and we ought to engage that and we ought to look at
3 the other insurers.
4 But we ought not to get overly
5 optimistic about that because, guess what, Blues do
6 dominate the marketplace here such that we would --
7 they have about two-thirds of the premiums. So
8 even if everybody was charged equally, and they got
9 tax offsets -- oh, and that's another thing, there
10 was a lot of talk about taxes. There's -- the
11 Blues do pay a lot of taxes. And that's recognized
12 in 2455. This is an offset for every single dollar
13 of tax paid. That's right in that bill. So that
14 message, which I misspoke about in one hearing
15 earlier this year and others have, has been heard
16 loud and clear. There are tax offsets here. There
17 would be for the for-profits.
18 By the time you were done taking the
19 dominant premium rolls that the Blues have, and
20 then bringing in the rest of the premiums, which
21 may add -- you know, they have something like ten
22 billion, maybe, in premium that would be accessible
23 here, you may bring in another three billion or
24 something, if you brought in everybody else. Then
25 you have to add in the tax offsets, you're not

1 going to get a lot of money out of the rest of the
2 insurers. But it's still an equitable point and
3 it's a fair point to be raised.
4 And then I'd second the issues around,
5 you know, doing everything we can to keep managing
6 that benefit. This is a cut-throat business. I
7 mean, the profit margins are not thick in this
8 business. And the surplus is still, you know,
9 compared to some other industries, not that big.
10 So it's still a tough business, so it's constantly
11 trying to revise those benefit plans and make them
12 as effective as possible.
13 We did some work this year with cost
14 sharing that was mentioned, to cut the benefit
15 costs down 10 percent on the plan. We can continue
16 to work on these sorts of things and try to get us
17 through, but I think the bottom line is, we, as a
18 state, need to find a solution here, and the bounty
19 being primarily with the Blue Cross plans and Blue
20 Shield plans, it's to their credit that they've got
21 it. They've earned it. They deserve it. But they
22 ought to continue to share and do the kinds of
23 things they've done over the years.
24 And if we see that willingness, I
25 believe we can solve this problem for the next few

1 years.
2 Thank you, and I'd be happy to answer
3 questions.
4 CHAIRMAN DELUCA: Very good,
5 Commissioner.
6 You mentioned, to your knowledge, was
7 there -- when they entered into this agreement, why
8 wasn't that a key part of their proposal, the five-
9 year agreement, to have all the insurers
10 participate at that time? It is a key component
11 that they're proposing now.
12 COMMISSIONER ARIO: Mr. Chairman,
13 having not been here and having not asked that
14 particular question of the people who were party to
15 the agreement as to why it wasn't, at that point --
16 CHAIRMAN DELUCA: I should have asked
17 -- I appreciate that.
18 COMMISSIONER ARIO: -- I think I will
19 have to beg off. But I would sheerly speculating,
20 I really have not -- it's a very good question, I
21 just haven't asked it of the people that were
22 involved myself.
23 CHAIRMAN DELUCA: Thank you.
24 Representative Killion.
25 REPRESENTATIVE KILLION: Thank you.

1 I'm glad that the Blues are doing so
2 well. I have an Inquirer article here, they posted
3 a seventy-eight -- seventy-eight-million-dollar
4 loss, and we know they're down nine hundred
5 employees, but we can discuss that later.
6 Is it your opinion that if they
7 continue the agreement at the current levels for
8 all four Blues plans, that they would be able to do
9 that without increasing premiums on businesses and
10 families and not having to lay off employees? Do
11 you believe they can do that?
12 COMMISSIONER ARIO: Representative,
13 unfortunately, the world we live in with
14 health care, no one can get from here to 2014
15 without having to increase premiums. We've got a
16 cost problem in the health care marketplace, where
17 premiums double every ten years. Right now, that's
18 why we're desperate. We need the reform.
19 So we're going to see premium
20 increases, whether we do this plan or don't do this
21 plan, between now and 2014 from all of the plans.
22 And, again, the use of the seventy-eight million
23 and the nine hundred employees, if you look at
24 these businesses, compare them to other businesses
25 in the commonwealth, not over individual specifics,

1 like the results for a very short period of time
2 but over the last five years, you will see that all
3 of these companies, comparatively speaking -- we
4 did go through a major crisis in the country -- but
5 comparatively speaking, surplus, up; premium
6 revenue, up; most indices of company health, up.
7 REPRESENTATIVE KILLION: There was a
8 second component. Premium revenue may be up, but
9 you also need to know what expenses -- where
10 they're at as far as claims paid. And, you know, I
11 can make a five-dollar hoagie and sell it for four
12 dollars. I can make a lot -- it looks like I make
13 a lot of money, but I'm actually losing money. So
14 you need to consider that.
15 And also, you talked about this
16 windfall, maybe it will be a windfall for all the
17 insurers in the commonwealth. I don't know that.
18 But I look at our hospitals, and you if went in and
19 talked to any of our hospitals to see how well
20 they're doing under the Medicaid plan, it's these
21 guys that are bailing them out with their premiums
22 to subsidize their losses. They're taking on the
23 government -- on the patients that are on the
24 government plan.
25 So I -- and you're saying long term.

1 I hope we'll all be fine long term, but in the
2 short term, where we are right now, they're
3 hurting, and we are asking them to continue this.
4 I think we all need to work together.
5 The conversations are about looking at
6 the plans. You know, I had legislation last year
7 for life plan. We ought to look at the benefit
8 levels. We ought to look at the list of people on
9 the waiting list. There are people on that waiting
10 list that shouldn't even be here. They've gotten
11 jobs, but we still count them on the waiting list.
12 I think we all need to work together
13 on that, because we have the same goal. We want to
14 keep the forty-thousand people that are currently
15 on adultBasic on adultBasic. But I think it's
16 unfair to just put all that, just telling the
17 Blues, You're going to -- we're just going to force
18 you to continue an agreement that you did
19 voluntarily, now we're going to mandate that you do
20 that agreement. We need to go beyond that.
21 COMMISSIONER ARIO: Representative,
22 again, I want to emphasize and underscore what you
23 said at the end there, that there's a reasonable
24 argument to look at everybody sharing the burden
25 here and talking about that. I think it's

1 important.

2 On the other issue who's hurting and

3 who's not, I think when Joe Frick was here a couple

4 years ago, he spoke to it well. He said, My mother

5 taught me never to complain about being hungry when

6 I have a loaf of bread under my -- in my arm. And

7 comparatively speaking, again, all four Blues have

8 bread under their arm.

9 CHAIRMAN DELUCA: Representative

10 Shapiro.

11 REPRESENTATIVE SHAPIRO: Thank you,

12 Mr. Chairman.

13 And welcome, Commissioner.

14 Let me, before I get into my

15 questions, just commend you. You played an

16 incredibly important role in the national reform

17 debate.

18 COMMISSIONER ARIO: As did you.

19 REPRESENTATIVE SHAPIRO: Well, thanks.

20 You brought a lot expertise to the

21 table, and I know Pennsylvania's better off for it,

22 so thank you for your leadership there.

23 You, I think, answered most of my

24 questions, so just sort of rapid fire, just want to

25 confirm. Again Representative Eachus testified

1 about a six billion -- presence of the six-billion-
2 dollar surplus. You indicated that you concur with
3 that number, that it is roughly six billion
4 dollars.
5 COMMISSIONER ARIO: Slightly over six
6 billion, correct.
7 REPRESENTATIVE SHAPIRO: And then, in
8 terms of the benefit package, I asked this question
9 to Ms. Kockler about whether or not we're building
10 this program on a foundation that's faulty, and the
11 response from her and the other panelists was that
12 perhaps, in some cases, the benefits are too rich,
13 and we need to relook at that.
14 You seemed open to that idea in your
15 testimony. But I don't want to put words in your
16 mouth. Can you just maybe address that line of
17 questions she and I had earlier?
18 COMMISSIONER ARIO: Representative,
19 with the caveat that we did just go through an
20 excruciating set of discussions with each of the
21 adultBasic participants on cutting 10 percent on
22 premium by increasing cost sharing and putting some
23 caps on the number of visits and so forth, we just
24 did that this year, and so I kind of shudder a
25 little bit about trying to do more. But, yes,

1 we're always open to those kinds of ideas, if there
2 are good suggestions that way.
3 REPRESENTATIVE SHAPIRO: And then the
4 last question, as it relates to the for-profit
5 insurers, you had stated we want private insurers
6 serving those people, and I just want to make sure
7 I understood correctly that you believe they should
8 have some skin in the game on this as well, in
9 terms of putting some dollars forth, recognizing
10 the financial situations that they're in. Do I
11 have that correct, in terms of your view on that?
12 COMMISSIONER ARIO: Representative,
13 yes, you do. To get thirty million new customers,
14 I think, does involve some skin in the game on the
15 part of the industry. And we've seen it, frankly.
16 They've got a lot of skin in the game. And you've
17 talked about some new taxes and so forth.
18 REPRESENTATIVE SHAPIRO: You'd be
19 amenable to an amendment to this legislation,
20 perhaps, or some other bill, that requires them to
21 pay up alongside the Blues in order to sustain
22 adultBasic for some period of time?
23 COMMISSIONER ARIO: Again, if you go
24 back to the governor's budget address, it included
25 language about the Blues and other insurers, and I

1 think that still stands, and we're still open to
2 that. I mean, I know that's still open.
3 REPRESENTATIVE SHAPIRO: Thank you for
4 your testimony. I concur particularly with that
5 latter point a thousand percent.
6 Thank you.
7 Thank you, Mr. Chairman.
8 CHAIRMAN DELUCA: Representative Boyd.
9 REPRESENTATIVE BOYD: Thank you,
10 Mr. Chairman.
11 Commissioner, couple of real quick
12 questions.
13 One, the governor's budget proposed to
14 take more money from the tobacco settlement funds
15 that was clearly intended, from day one, to be
16 driven into adultBasic. We heard testimony
17 dropping that number from roughly seventy-four
18 million dollars, now, in his current budget, to
19 fifteen. Do you think that's an appropriate
20 proposal?
21 COMMISSIONER ARIO: Representative,
22 again, not being here back then, I can't speak to
23 the clearly intended part of your question. Where
24 that money is going is to the medical assistance
25 for disabled workers, which is an entitlement

1 program under the Medicaid allotment, and so we
2 have to provide that support to that program under
3 Medicaid obligation.
4 So were we to take money from that
5 pot, we would then have to find a replacement for
6 that, so it would be a bit of a shell game. So
7 it's in that context, I think, that you end up with
8 the diminishing revenue to this program, and it
9 clearly does create more stress on this program,
10 but I don't see a good alternative, short of
11 another funding source for the disabled worker
12 program.
13 REPRESENTATIVE BOYD: In my eight
14 years, I can agree with you that budget processes
15 are shell games, but we'll go on from there.
16 I would like if you could give me a
17 real short answer to the real question, the
18 fundamental policy question that Mr. Warfel
19 directed. If, in fact, there's Blues reserves,
20 those Blues reserves have come from premiums that
21 have been paid primarily by private sector
22 insurance plans.
23 Do you believe those reserves are
24 fundamentally -- should be driven back in premium
25 discounts, or do you believe that it's a better

1 policy decision for the state to take them for
2 other purposes, like funding adultBasic? It's a
3 fundamental policy question.
4 COMMISSIONER ARIO: I tend -- it's a
5 very good, astute question, and you can argue both
6 sides of it. I could argue on both sides of it. I
7 tend to think the stronger side of that argument is
8 that when we create these large entities and
9 they're nonprofits of the state, that the broader
10 populous has some claim on that money in addition
11 to the specific ratepayers. In there, they
12 basically get paid a fair rate as they were set in
13 the market during the years that they paid them.
14 And to say that, you know, those claims go -- those
15 ratepayers get those claims would be the same thing
16 to me, kind of the same, that, you know, the
17 shareholders are betting on who raked in some of
18 the money that Aetna collected from its ratepayers
19 owe that money back in some form or fashion to the
20 ratepayers, if there were to be some sort of action
21 like that.
22 I think it's -- people pay fair rates,
23 and, in general, that money can be looked at as
24 a -- put it this way, if the Blues were to convert
25 to for-profit at some point, as has happened in

1 other states, there would be -- if it works like
2 other states -- we don't even have a law on this
3 yet in this state, but if we did and it worked like
4 it did in other states, there would be a public
5 claim on those dollars and a public contribution
6 and benefit that were gained through the
7 nonprofit.
8 And it's more than just a nonprofit
9 thing, by the way. It's a combination of things
10 that work there would go into some kind of public
11 foundation. So, in that respect, I lean on the
12 public side of that.
13 REPRESENTATIVE BOYD: I think, as we
14 move forward, perhaps, Mr. Chairman, with, you
15 know, some -- with some looking at this overall
16 program, what we end up doing to preserve the
17 adultBasic program, perhaps that would be something
18 that would be a good part of the policy discussion
19 that may be -- because I think everybody's
20 testified that, no matter what, premiums are going
21 up. I mean, that's -- you said that a couple
22 times.
23 And my comment is, that's a problem,
24 because, currently, the private sector is to the
25 point where they cannot continue to afford to pay

1 for health premiums, so if they're going to
2 continue to go up, maybe a part of the component to
3 this could be 50/50, maybe it would split half the
4 revenue, if there is a surplus in reserve, half
5 that would go to adultBasic, and maybe some could
6 be driven back for premium reduction. But we'll --
7 that's something that we can at least talk about.
8 And then my last question is, one of
9 the things that I have some concern about is I've
10 been provided some information that the department
11 has actually gone out and sent letters to more
12 people to invite them to get onto the adultBasic
13 rolls. And I know periodically the governor,
14 historically, would do press releases and say, you
15 know, We've opened to sixteen thousand new people.
16 My -- the information I was provided
17 is, is that a similar option was offered recently
18 in this first quarter of 2010 for forty-some-odd
19 thousand people. Is that correct? And given the
20 current stress on the system and the fact that
21 we're in, perhaps not crisis mode yet, but in a
22 very serious situation, why would we be offering
23 for more people to get onto that program when we're
24 not sure we have a funding mechanism for it in the
25 future?

1 COMMISSIONER ARIO: Good question,
2 again. In the response to several legislators who
3 have seen us make these bulk offers periodically
4 over time, people have said, Why don't you just
5 make a monthly offer to keep moving people in and
6 out of the program in a more periodic basis? And
7 so we took that to heart and changed the program so
8 that we would make monthly offers. And we've been
9 doing that this year. We've been making monthly
10 offers.
11 The governor said in his budget
12 address that he thought the program should be at
13 kind of a historic midpoint, which would be about
14 fifty thousand. Remember, it was as high as fifty-
15 seven. Because of all the budget issues last year,
16 they dropped down to forty. So our instruction was
17 basically to make larger monthly offers in order to
18 build the program back towards fifty. That's what
19 we've been doing.
20 I think we're -- right now, today, if
21 we just took a snapshot, we probably haven't
22 achieved that full fifty thousand. If everything
23 runs through the system, with the current offers,
24 we'd probably be up in the forty-six, forty-seven,
25 forty-eight, somewhere in there, range. So we have

1 increased the program some.
2 We're now on maintenance offers each
3 month, and just making an offer enough to keep the
4 program level. If it was the will of the
5 legislature and the governor to say, We want the
6 program to go back down smaller -- we do lose about
7 five hundred people a month to illness, whatever,
8 can't afford even the small premiums, so you can
9 manage the number down over time. You can manage
10 it up over time.
11 But that's the way in which it was
12 based -- and the governor was quite public about
13 saying that the target was the fifty thousand. And
14 lately we've heard of lot of talk about why we were
15 doing that, and that's a valid issue to have in the
16 legislature, but it came from a public announcement
17 that that's what we were going to do.
18 REPRESENTATIVE BOYD: Thank you,
19 Mr. Chairman.
20 CHAIRMAN DELUCA: Thank you.
21 I just want to bring to your
22 attention, and we're in the midst of trying to get
23 some -- get some information, as Representative
24 Boyd talks about employers and cost of health care,
25 CNN did a story last week, and I don't know if

1 you're familiar with that CNN statement about
2 health care in Pennsylvania and other states.
3 COMMISSIONER ARIO: I only watch Fox
4 so --
5 CHAIRMAN DELUCA: Well, let me say
6 this -- that's why you only watch Fox --
7 COMMISSIONER ARIO: Fair and balanced.
8 CHAIRMAN DELUCA: Good. Fair and
9 balanced.
10 What I find astonishing was the fact
11 that we were singled out as one of the highest cost
12 for hospital and profit margins, a hundred forty-
13 one percent, compared to Maryland at 31 percent,
14 and we're trying to ascertain how they got the
15 figures, because I find that outrageous. New
16 York's higher than that, than the national average.
17 We're higher than the national average providing
18 funds for our hospitals and that there, which has
19 an impact on the insurers, which certainly -- we
20 will be sending them a letter to find out why the
21 cost is so high in Pennsylvania compared to other
22 states. And that's a horrific figure, a hundred
23 forty-one percent profit margin for a hospital.
24 COMMISSIONER ARIO: Mr. Chairman, I
25 think what you'll find in the hospitals here, as we

1 find and compare to Oregon and compared to what I
2 know about other states, is we have a more
3 pronounced kind of tale of rich and poor in this
4 state than most states. So you take some of the
5 large urban hospitals, they do quite well in the
6 state, probably significantly better than the
7 average across the country. Then you go into some
8 of the rural parts of the state, and we have some
9 of the really tough situations as well.
10 Now, every state has some of that kind
11 of thing. I think it's more pronounced in this
12 state.
13 CHAIRMAN DELUCA: But it was -- you
14 know, it was eye opening to find out that we were
15 singled out on the CNN health care news report.
16 Thank you. And thank you. We look
17 forward to working with you, Commissioner.
18 COMMISSIONER ARIO: Thank you.
19 CHAIRMAN DELUCA: Last panel we have,
20 and then we certainly apologize to them for the
21 time, but we thank them for coming, and that's
22 Sharon Ward, director of Pennsylvania Budget and
23 Policy Center; Richard Weishaupt, senior counsel of
24 Community Legal Service; and Kim Ward, consumer,
25 adultBasic waiting list.

1 Welcome. Thank you for taking the
2 time to come out here this morning, and even though
3 we're a little late for you, we thank you for
4 staying in there.
5 Who would like to start off?
6 MS. WARD: Good morning. Thank you,
7 Chairman DeLuca and Chairman Micozzie and members
8 of the committee, for inviting us here today and
9 for having a panel of consumers.
10 I do want to say that our third
11 panelist, whose name is Kelly Amos, actually --
12 that was the wrong name on the agenda -- had a
13 doctor's appointment and she had to leave.
14 In the interest of time, what I think
15 I'm going to do is to not read my testimony, but I
16 just want to hit upon some key points. And what I
17 want to do is to draw you back to remind the
18 committee about why we have this program in the
19 first place.
20 So I do want to thank you for inviting
21 us here today, and here with the Pennsylvania
22 Budget and Policy Center. We're also a
23 participating member of the Pennsylvania Health
24 Access Network, and there are about fifteen people
25 from around the state from a group who are here

1 today.
2 We have adultBasic because of
3 affordable health insurance has been very difficult
4 to find for many Pennsylvanians. Premium costs
5 have increased well in excess of inflation and
6 wages, as you well know. But Pennsylvania has been
7 particularly acute.
8 Pennsylvania ranked second nationally
9 in that largest number of people who have lost
10 employment-based coverage. Almost seven hundred
11 thousand people have lost employment-based coverage
12 in Pennsylvania during the last decade. We're
13 second only to Michigan. We're well above
14 California. We're well above New York. We have a
15 particularly bad problem here in Pennsylvania.
16 According to the Department of
17 Insurance, 8.2 percent of residents, about one
18 million, including eight hundred eighty thousand
19 working age people, have no health insurance. And
20 that was in 2008. We expect that number is going
21 to increase significantly because of the
22 recession.
23 One of the issues that came up today
24 was around the issue of adultBasic and the
25 Community Health Reinvestment Agreements and what

1 steps the general assembly and administration have
2 taken to try to address this previously. Well, I
3 want to say that this general assembly has
4 entertained, for at least two years, administrative
5 proposals to address the growing number of
6 uninsured in Pennsylvania. That was through the
7 Cover All Pennsylvanians proposal, the access to
8 bear proposal that Representative Eachus introduced
9 last year.
10 Those programs would have both
11 improved the benefits, because the adultBasic
12 package, unlike what you've heard here today, is
13 not a rich benefit package. It does not include
14 prescription drugs. It does not include behavioral
15 health coverage. In fact, those changes would have
16 needed to have been made for the adultBasic program
17 to become federalized.
18 A plan had been enacted in 2007 to
19 provide stable state funding and to draw down
20 federal Medicaid funds for adultBasic, in 2007, and
21 have been proposed. We would have brought in a
22 number -- depending on how much Pennsylvania would
23 have put in, hundreds of million of dollars in
24 additional federal funds. We would have been able
25 to stabilized the program. We would have been able

1 to serve more people.
2 So we are not asking for an expansion.
3 We're not asking for you to take any additional
4 steps to cover more people. We're simply asking
5 you to take the steps to keep the people who
6 desperately need coverage covered today.
7 I also want to address another issue
8 that comes up a lot. Two things. First, the lack
9 of health insurance coverage is as much a rural
10 problem as an urban one. There's always a myth
11 that all the uninsured people live in cities.
12 That's not the case.
13 According to, again, the Department of
14 Insurance survey, residents of the northeast and
15 north central region have the highest proportions
16 of uninsurance, well above the state average.
17 Twenty percent or more of the residents of Union,
18 McKean, and Bedford County were uninsured in 2008,
19 and 17 percent of the residents of Potter, Wayne,
20 and Susquehanna Counties, and the same share of the
21 population is uninsured in Jefferson and Venango
22 Counties as in Philadelphia County.
23 The other thing you need to realize
24 that adultBasic is a well-established program. The
25 mechanics are there. We want to keep it in place.

1 It serves about forty thousand in Pennsylvania who
2 are enrolled this -- in April of this year, and
3 they range across the state.
4 We have a map, which I probably didn't
5 share with you, that shows the enrollment of
6 adultBasic and the waiting list as of March. And
7 there are people enrolled in every county in
8 Pennsylvania.
9 And although the program enrolls only
10 a small percentage of the total population of
11 working age adults, about half a percent statewide,
12 it's more than that, double that, in eleven
13 counties, including Bedford, Potter, Somerset,
14 Clearfield, Susquehanna, Sullivan, Tioga, some of
15 our most rural counties.
16 AdultBasic is the insurance source for
17 people who don't qualify for other public programs
18 and they can't afford health insurance on their
19 own. This includes childless adults without a
20 disability -- they're not eligible for medical
21 assistance -- and working parents, once they get a
22 job and their income is 25 percent of the federal
23 poverty level. It's also the only program that
24 exists for people between a hundred and 200 percent
25 of the federal poverty level, and that is the group

1 who's most likely to be uninsured.
2 We can give you numbers and
3 statistics, but to understand who doesn't have
4 health insurance in Pennsylvania and who is served
5 by this program, I'd ask you to take a look at the
6 people who are caring for our parents and caring
7 for our children. Look at the people who are at
8 the Sheetz every day, giving us our coffee.
9 These are people who are stuck in the
10 middle. They toil away at jobs that don't pay
11 enough to give them the opportunity to afford
12 insurance or their employers aren't offering
13 insurance at all. And many of them have
14 preexisting conditions.
15 And as we sought to recover stories
16 from people who are on adultBasic or on the
17 adultBasic waiting list, these are people who have
18 been excluded by our health insurance companies
19 because of our terrible consumer protections in our
20 regulatory system. They have pre-existing
21 conditions, and their only option has been to
22 purchase insurance on an individual market, which
23 is very, very expensive.
24 Let me draw your attention to the
25 attachment two on my testimony. There are a number

1 of stories there that I thought we should share.
2 Of course, I need to find them myself now. But let
3 me -- let me address Marry Hollis, who's a
4 certified nurse and midwife in Brookville,
5 Pennsylvania, who applied for adultBasic and spent
6 two years on the wasting list, and who claims that
7 the program saved her life, not once but many
8 times.
9 She was -- she has numerous health
10 problems. The cheapest insurance she could find
11 was five hundred dollars per month, and she claims
12 that when she called around to find individual
13 insurance, she was hung up on by insurance agents,
14 after mentioning that she had a preexisting
15 condition.
16 Well, she's an individual. She's not
17 a charity, but she has taken her access to a public
18 program and turns that to a public benefit. She
19 started a free clinic to give care to pregnant
20 women and teenagers on a sliding scale. And she
21 says, Please, help us who fall through the cracks.
22 Kathy Dabanian, from Sellersville,
23 Pennsylvania, has been diagnosed with Lyme disease
24 and almost died, and adultBasic saved her.
25 And, again, we have heard this over

1 and over again, that people got on the adultBasic
2 program, and their lives were saved because they
3 had access to care that enabled them -- their
4 clinicians to diagnosis problems that were severe
5 and they were able to be treated.
6 Finally, we have Viola Scheurer. Her
7 story come to us from out of the clinical director
8 of health center number ten in Philadelphia. She
9 had a small amount of blood in her urine, and
10 when -- she was able, because of her insurance
11 coverage, to get an exam that showed at presence of
12 a large tumor in the bladder that was cancerous.
13 Again, another person who was saved by this
14 program.
15 So I would urge you to do everything
16 that you can to save it and to ensure that we
17 continue this coverage. Again, the federal
18 health care reform will kick in in January 2014.
19 There will be expanded opportunities for the
20 medical assistance program, which the federal
21 government will pay 100 percent for, for the first
22 four years.
23 There will be health insurance
24 exchanges for individuals and small businesses to
25 find insurance where there is competition, real

1 competition among insurers. This system has worked
2 in Massachusetts. The number of people that
3 have -- that are uninsured has gone down
4 dramatically, and the number of businesses buying
5 insurance has gone up. So we've got to get from
6 here to there.
7 So let me take -- let me take just a
8 couple of minutes to talk a little bit about the
9 Community Health Reinvestment Agreement. What
10 we've heard over and over again was an attempt to
11 link Community Health Reinvestment Agreement to the
12 adultBasic program, and I want to tell you that is
13 a false link. That is not how we got here today.
14 The Community Health Reinvestment
15 Agreements were -- were negotiated in response to
16 what was a five-year public outcry over the large
17 surpluses that were amassed by the nonprofit
18 Blues. That was not just an issue here in
19 Pennsylvania, that occurred across the country.
20 And with -- with their surpluses, many of the
21 nonprofit Blues decided they were going to take
22 their money and run and move to -- and fully
23 convert to for-profits. They needed legislative
24 approval to do that or insurance department
25 approval to do that.

1 In many states, there was an effort
2 to -- it created a dialogue about what's private
3 and what's public and how much is owed to the
4 public because of the nonprofit status that was
5 given to these organizations, the statute here in
6 Pennsylvania. What -- how much of that was benefit
7 that was owed to the public?
8 In California, they took the assets
9 and they converted them to a private foundation.
10 And in New York and Wisconsin, they took the assets
11 and the state used that money to provide health
12 insurance. It was considered widely to be public
13 benefit that should have been collected and accrued
14 to -- for public uses.
15 The nonprofit conversion stopped, in
16 part, because they were no longer allowed, many
17 insurance departments decided to oppose them, and
18 perhaps that wasn't exactly the approach that the
19 nonprofit Blues found most advantageous to them.
20 But here in Pennsylvania, there was a
21 class action suit filed against all four Blue Cross
22 plans by small employers, complaining about the
23 size of the surpluses. In 2003, the insurance
24 department, under pressure from large and small
25 employers about those surpluses, began to deny rate

1 increases for the Blues.
2 And after that, the Community Health
3 Reinvestment Agreements began to be negotiated.
4 There were a lot of other steps into between, but
5 let me just point you to another chronology.
6 Actually, it wasn't -- well into 2004 that anybody
7 talked about recapturing some of the Blues surplus
8 money for adultBasic. That was not of the
9 conversation prior to that.
10 And in 2005, the governor announced
11 the signing of the agreement, the Community Health
12 Reinvestment. And two days later, the insurance
13 commissioner released a determination by the
14 Pennsylvania insurance department that the plans
15 did not have excess surpluses. Two days later.
16 Shortly after that, two or three
17 months after that, the insurance department began
18 reviewing and approving the Blues rate hikes.
19 So this has been, from the beginning,
20 about -- and its a dialogue that needs to
21 continue -- about what the appropriate rate of
22 surplus is, who do they belong to.
23 I agree with Commissioner Ario that
24 there is a strong history, because of the
25 constitutional and statutory preference that is

1 given to the nonprofit Blues, to have some of that
2 captured for public use. But, certainly, as a
3 nonprofit and small business, we all pay. We pay
4 very high insurance premiums. And, certainly, a
5 balance needs to be reached about the appropriate
6 level of those surpluses.
7 So before I leave, let me just say two
8 things. There's precedent in Pennsylvania for a
9 premium assessment on nonprofit Blues. The first
10 one was -- was assessed as part of the agreement on
11 the merger in 1996 that created Highmark. There
12 was a 1.2 percent assessment on the premiums that
13 was part of that merger approval.
14 And then, the other thing I want to do
15 is, if you look at the third attachment of my
16 testimony, what I have for you is some information
17 on the Blues businesses. And I urge you to take a
18 look at that. And I will look at it myself, if I
19 could find it. But let me -- I'm trying to rush
20 through here.
21 There is an underlying issue of
22 surpluses. The Blue Cross providers are large,
23 complex, and they're profitable. Attachment three,
24 look at the profit and surplus information for IBC
25 and Highmark for 2004 to 2007. Again, we're not

1 being selective here. That's all the information
2 that we have happen to have collected at that time,
3 and it was while the merger discussions were going
4 on.
5 They're very complex companies.
6 Independence Blue Cross has thirty-five affiliated
7 companies in three states. Their nonprofit
8 business is a very small share of that consolidated
9 company. Sixteen million of a hundred seventy-two
10 million dollars book of business. Their net
11 income per member per month was fourteen dollars
12 and sixty-five cents, and they had 1.5 billion in
13 retained earnings on the nonprofit side and 1.7
14 billion in the consolidated company.
15 Highmark is a bigger company. They
16 have forty-two subsidiaries in several states, and
17 they do a greater share of business through their
18 nonprofit. Their net income per member was much --
19 was lower than Independence Blue Cross. It
20 actually grew substantially in 2007. The retained
21 earnings on the nonprofit side were 3.5 billion
22 dollars and 3.9 billion dollars for the
23 consolidated company.
24 There's -- some have argued that we've
25 had a for-profit conversion in Pennsylvania by

1 fiat, essentially, that the Blues have moved more
2 of their business into the for-profit side.
3 Certainly they were encouraged to do that on the
4 Medicaid managed care side because it enabled them
5 then to assess -- enabled assessments to be levied
6 that helped to draw down additional federal
7 Medicaid dollars.
8 Commissioner Ario was right. The
9 insurance companies are -- stand to benefit
10 tremendously from federal health care reform. They
11 have almost 70 percent of the business here in
12 Pennsylvania.
13 You did not see Harry and Louise in
14 this year's federal health care reform debate
15 because the insurance companies were supporting the
16 federal health care reform because it is expanding
17 their customer base.
18 Much of the new business will be from
19 younger and healthier individuals. They're going
20 to be less costly. And the new rules around
21 restricting rating, restricting exclusions based on
22 preexisting conditions are actually going to affect
23 the for-profits more than -- the private insurers
24 more than the Blues and so they should benefit
25 substantially.

1 But why do we want to do this? Why
2 should we do this at all? Health insurance
3 coverage reduces health care costs, provides stable
4 funding for health clinics and hospitals and it
5 saves lives.
6 We urge you to find the way not to
7 have a temporary extension of this. Don't let the
8 program just attrit into oblivion, which is what we
9 fear if enrollment stops. But we urge you now,
10 while you can -- and we have great trust in your
11 judgment here -- find a solution that will enable
12 these individuals to maintain their health
13 insurance. Don't make the problem worse this
14 year.
15 Thank you.
16 MR. WEISHAUPT: Thank you,
17 Mr. Chairman.
18 I, too, will depart from my written
19 comments. I'm sure you can read them yourself.
20 I just want to say a few things and
21 address some of the questions that various members
22 of the committee have had.
23 One question was, well, what is
24 exactly the nature of your -- of the Blues'
25 nonprofit status. They're actually considered --

1 this a quote from an old law -- institutions of
2 purely public charity, which gives them limited tax
3 exemptions. And, by the way, gives them tax
4 exemptions for localities.
5 Now, some localities do charge
6 payments in lieu of taxes, but it's not completely
7 clear that those payments were actually the same as
8 what would be charged to for-profit entities.
9 Now, in order to qualify as a purely
10 public charity, an institution must do several
11 things. They must have a charitable purpose. They
12 must render substantial portions of their services
13 for free or greatly reduced subsidized prices and
14 relieve the government of some of its burdens.
15 That's exactly what the CHR did. The
16 CHR came about as a result not of a purely
17 voluntary move by the Blues, although we applaud
18 them for signing the agreement, but there were a
19 number of challenges, including the challenge
20 brought by fourteen groups, including labor unions
21 and Sharon's organization and alliances of senior
22 citizens, among others, claiming that the Blues
23 were -- were amassing surpluses that were too
24 great.
25 And although it is very understandable

1 that an executive of a Blue would say there is no
2 surplus that is too great, that, in fact, is not
3 true. While a surplus of ever increasing size is
4 good if you want to dominate the market and inhabit
5 the entry of others into the market, it does make
6 sense and -- to have a limit on surplus, and that's
7 what the Insurance Department has done. That's
8 what the National Association of Insurance
9 Commissioners recommends. And that's what the Blue
10 Cross national organization requires of its
11 members.
12 We filed a proceeding, among other
13 people, before the insurance commission in 2004,
14 claiming that the surpluses had grown too large.
15 The commissioners -- the then-commissioner of
16 insurance, who was a holdover from the previous
17 administration, held hearings and actually hired
18 experts to investigate the question.
19 At a point where it was in doubt as to
20 which way things were going to go as to the size of
21 the surplus, the administration struck a deal with
22 the Blues where they would sign a CHR that would
23 devote 60 percent of their obligation to provide
24 charitable activities to adultBasic as a way to
25 prop up the adultBasic system.

1 They freely signed that agreement.
2 That agreement was timed and when the
3 administration ended. It wasn't like they just
4 picked a date out of a hat and didn't know when
5 that -- when that would end. It was done on
6 purpose then, in order to see whether they could
7 renegotiate a better deal, frankly, with the new
8 administration.
9 We're now at that point. We have
10 nothing against negotiations, although we think
11 consumers should be at the table when the
12 legislature and the Blues are discussing that, and
13 we can look at things like, where is the charitable
14 money that the Blues spend every year, where does
15 it go, and which are the highest priorities.
16 There's always a temptation to spend
17 that money in ways that looks more like public
18 relations than like the highest priorities. Right
19 now the highest priority in Pennsylvania should be
20 providing insurance to people for the three years
21 before we get to the implementation of the
22 health care reform act.
23 There are 1.4 million people in
24 Pennsylvania that are uninsured. Almost four
25 hundred thousand of them have signed up for

1 adultBasic. That's 27 percent of all the insured
2 think that the only way that they can get insurance
3 is to sign up on the waiting list.
4 When they get to the head of the line,
5 they're screened to make sure that they haven't got
6 any other type of insurance. They're screened to
7 make sure that they meet the income requirements.
8 Those income requirements are -- have some bite.
9 There are people who are limited to less than 200
10 percent of the federal poverty level and a number
11 that often gets bandied about, but people may not
12 know what it means. That means that their
13 household income for a couple is twenty-four
14 hundred a month, and for an individual, it's
15 eighteen hundred dollars a month.
16 So these are not folks that can afford
17 a drastic rewriting of their insurance policy. The
18 insurance policy basically covers limited -- right
19 now, it covers limited number of hospital -- I'm
20 sorry -- limited number of doctor visits and
21 hospitalization.
22 If you have eighteen hundred dollars
23 in monthly income, you can't afford thousands of
24 dollars in co-pays or -- like some plans have gone
25 to, a six-thousand-dollar deductible. That would

1 mean that they would have no other income for six
2 months or -- I'm sorry -- for three months.
3 So, although it may be something that
4 needs to --that a better look needs to be taken to,
5 there's not a huge amount of money to be obtained
6 by looking at the subscribers and saying, Okay, you
7 pay more.
8 The interesting thing about the folks
9 that are on adultBasic, when you look at it, is 60
10 odd percent of them are working. They're working
11 right now, but their employer does not provide any
12 kind of employer-based health insurance.
13 Another significant percentage of them
14 are people who become disabled but cannot work.
15 They're getting Social Security, but Social
16 Security has a two-year waiting period for Medicare
17 to kick in. So there are people that worked in the
18 past, something happened to them, maybe they had an
19 accident at work, maybe they just got old, maybe
20 the toll of working at a -- at a, you know, at a
21 heavy job was just too much. They get to be in
22 their late fifties. They need to wait two years
23 before they can qualify for Medicare. And they
24 have no other place to pay their health care
25 bills. So they're also at least previous workers.

1 They're also people who have taken
2 early retirement. Certainly, there's been a
3 disproportion of people over sixty who've been laid
4 off. Medicare doesn't start until you get to be
5 sixty-five. They have taken the early retirement
6 at sixty-two or sixty-three, traded in a lower
7 monthly amount, because they needed it to live on.
8 And they all are people, the people, your
9 constituents, who qualify for adultBasic.
10 These are not wealthy people. These
11 are not people with a lot of extra in their pockets
12 to pay for co-pays and deductibles.
13 The other thing I would mention, as
14 Sharon did, this does not pay for drugs at all.
15 There's no drug coverage whatsoever. And there is
16 no behavioral health coverage at all. It's
17 basically doctor visits and hospital care. That's
18 it.
19 In summary, what we would say is, like
20 Commissioner Ario, we need a bridge to get from
21 2011 to 2014. In -- I don't know, windfall might
22 be too harsh a word, but certainly the changes that
23 are going to come about as a result of health care
24 reform are only going to benefit insurance
25 companies.

1 Now, that -- in a way, that's good,
2 because then basically a very high percentage of
3 people will have insurance in our commonwealth.
4 But, right now, we need to get from here to there.
5 And the costs are not just the visible
6 ones. Two things. Representative Barber (sic), I
7 think, pointed out that if you take away insurance
8 from these folks, they're still going to get sick.
9 They're still going to go to emergency rooms.
10 They're going to create costs for the hospitals in
11 your communities, for the hospitals in my
12 communities. They're going to create upward
13 pressure on premiums, because hospitals are going
14 to say, Look, we've had a huge increase in
15 uncompensated care. We are going to go out of
16 business, and we're not going to be able to serve
17 your insured if we don't find a way to pay for this
18 uncompensated care.
19 That's going to happen. There is no
20 doubt about that. It's not easy to put a number on
21 that, but that's undoubtedly true.
22 The other thing that's going to happen
23 is there's going to be upward pressure on other
24 Pennsylvania programs. Medicaid has a spend-down
25 level, that if you basically become totally

1 destitute, you can qualified for Medicaid. Nobody
2 wants to see that happen. Those levels are down in
3 the 40 or 50 percent of the poverty level.
4 But the fact of the matter is, if
5 people become totally destitute and run up huge
6 bills in the hospital, they're going to turn to
7 Medicaid, and then we're going to have to insure
8 them under the Medicaid program. And so, once
9 again, it's going to come directly out of the --
10 out of the treasury.
11 People will also look to health
12 clinics and other places that are funded with
13 public revenue, all of which are good, we applaud
14 that, but those are consequences that are not
15 without costs. Who knows how many people will not
16 get better as a result of the care that they have
17 got on adultBasic and return to work.
18 A lot of -- as Commissioner Ario
19 pointed out, this is not like a stagnant pool of
20 people. People come in that door and they leave
21 through that door. One of the main reasons that
22 they leave is they get a job with health
23 insurance. Hopefully, adultBasic can make -- can
24 restore them to health so they can get that job and
25 so they don't become burdens on other programs.

1 So we realize that this is a
2 challenge, but that is why you're there. And we
3 applaud you for taking up that challenge, and we
4 think that adultBasic is a program that the
5 commonwealth and the people in it vitally need, and
6 we'll do anything within our power to assist you in
7 getting to a solution that preserves adultBasic,
8 not just for six months but until 2014.
9 Thank you.
10 CHAIRMAN DELUCA: Very good. I want
11 to thank you for your presentation, both. It was
12 very enlightening. And we look forward to working
13 with you.
14 Let me ask you this: Have you, what
15 process are you going to be doing, as consumers'
16 groups, to notify the individuals of this crisis
17 that are on the waiting list? Are you doing
18 anything?
19 MR. WEISHAUPT: Well, PHAN,
20 Pennsylvania Health care Access Now has already put
21 stuff up on its website, explaining to people what
22 the problems are and asking them to talk to their
23 legislators about the future of the program.
24 We're not in a position right now
25 where we want to scare people into thinking that

1 it's a done deal that their health care is going to
2 end, but certainly we are advising them of the
3 precarious nature of the program right now and that
4 both they need to perhaps become more active in
5 seeking a solution and also thinking about the
6 future.
7 CHAIRMAN DELUCA: So you think it'd be
8 appropriate to wait until maybe November to scare
9 them?
10 MR. WEISHAUPT: Well, we're telling
11 them now, and I think a lot of them --
12 CHAIRMAN DELUCA: I mean, you know
13 what I'm trying to say? You maybe don't think it's
14 a crisis. It's a crisis right now, whether you
15 think it or not.
16 MR. WEISHAUPT: It's a slow-moving
17 crisis.
18 CHAIRMAN DELUCA: Well, I don't know
19 about slow-moving. December comes. You know --
20 you know, what happens is, time moves. And it is a
21 crisis, whether you -- and I think you have an
22 obligation to notify these people there is a
23 crisis.
24 The other thing I would suggest that
25 you do, as a consumer group, is that we have a lot

1 of town meetings out there that the gubernatorial
2 candidates on both sides have been going to, and I
3 hadn't heard one address the adultBasic crisis. So
4 you might have some of your people who are on
5 adultBasic want to know what they intend to do if
6 they become elected governor, because --
7 MR. WEISHAUPT: That's a very good
8 suggestion.
9 CHAIRMAN DELUCA: You know, the reason
10 I say that, under the Obama administration, we
11 heard about change. And we know about change.
12 Outside now, all the gubernatorial candidates is
13 reform. Now, we understand Harrisburg needs to be
14 reformed, but we also understand that we got a
15 billion dollar -- almost a billion-dollar deficit,
16 and we want to know what cuts are going to be made
17 from these candidates, not just reform. And I
18 haven't heard that yet.
19 And I think it behooves the consumer
20 groups to start asking questions on this type of
21 program, the benefits. When we throw forty
22 thousand dollars -- forty thousand individuals off
23 on the health care, that's a crisis. Consumer
24 groups have an obligation to alert their members.
25 MS. WARD: Mr. Chairman, we certainly

1 agree with that, and we have been notifying --
2 we've been putting information out about this, but,
3 I think, if you're suggesting -- in some of the
4 questions suggested when is it appropriate for the
5 health insurance companies to notify people that
6 the funding for the program may be coming to an
7 end, I would agree with you sooner rather than
8 later. Thirty days is not appropriate.
9 CHAIRMAN DELUCA: We are going to
10 notify the administration of the fact that is to
11 get that --- if it's a thirty-day window, that is
12 not acceptable.
13 Again, I want to thank you for your
14 testimony.
15 I want to thank everyone for their
16 very excellent presentations we received today.
17 They will be very helpful to the committee in its
18 considerations of this and any other legislation
19 that addresses the issue of funding for adultBasic
20 program.
21 As always, my thanks to the committee
22 members for their attendance today and a lot of
23 them had to go to the house floor.
24 Let me also note for you that we will
25 have a committee meeting scheduled for the 26th,

1 and at that meeting will be voting session.
2 Lastly, I will note that we have
3 scheduled a public hearing on the commonwealth
4 implementation of the new federal health care
5 reform bill for the 27th, to educate ourselves
6 and educate the members on the national health
7 care legislation.
8 Again, I want to thank you. And
9 this meeting is now adjourned. Thank you very
10 much.
11 (Whereupon, the hearing concluded
12 at 11:45 a.m.)
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1 REPORTER'S CERTIFICATE

2 I HEREBY CERTIFY that I was

3 present upon the hearing of the above-entitled

4 matter and there reported stenographically the

5 proceedings had and the testimony produced;

6 and I further certify that the foregoing is a

7 true and correct transcript of my said

8 stenographic notes.

9

10 ________________________

BRENDA J. PARDUN, RPR

11 Court Reporter

Notary Public

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