

**PUBLIC TESTIMONY**  
Submitted to

**HOUSE INSURANCE COMMITTEE**  
The Honorable Anthony DeLuca, Chairman  
The Honorable Nicholas Micozzie, Republican Chairman

Presented by  
Kimberly J. Kockler, Vice President Government Affairs  
Blue Cross of Northeastern Pennsylvania

House Bill 2455, Printer's No. 3627

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Harrisburg, PA

## **Introduction**

Chairman DeLuca, Chairman Micozzie, members of the House Insurance Committee and invited guests, my name is Kimberly Kockler and I am Vice President of Government Affairs at Blue Cross of Northeastern Pennsylvania. On behalf of our company, I would like to thank you for the opportunity to present testimony on House Bill 2455.

I am here today because Blue Cross of Northeastern Pennsylvania is concerned about the ongoing viability of the adultBasic program and because House Bill 2455 is deficient in terms of solving that problem.

We ask that the Committee please keep the following points in mind for purposes of today's discussion and future debate on this issue:

- BCNEPA understands and appreciates that the expiration of the Community Health Reinvestment Agreement (CHRA) on December 31, 2010 impacts the 2010-2011 state budget as it pertains to funding for the adultBasic program.
- As an original participant in adultBasic, BCNEPA is concerned about those currently enrolled in the adultBasic program and in particular the more than 4,500 enrolled in northeastern and north central Pennsylvania.
- For more than 70 years, BCNEPA has been committed to our communities, including those who carry our insurance coverage as well as those without access to care or coverage. Our commitment to the health and wellness of the population we serve was in place long before the CHRA and continues to extend well beyond the CHRA.
- The current adultBasic program represents an outdated health care financing model and we firmly believe the legislature should focus on a sustainable and equitable solution for those Pennsylvanians currently served through the adultBasic program.

## **Background and Environment**

In order to appropriately evaluate House Bill 2455, we must first understand the origins of the CHRA. The Commonwealth's four Blue Cross Blue Shield Plans ("the Blues") signed the CHRA with the Insurance Department on February 2, 2005. In short, the CHRA was intended to help fund adultBasic from 2005 to 2010. The CHRA imposed a 1.6% assessment on our commercial premiums and another 1% assessment on Medicare and Medicaid products over a five-year period, less a deduction for premium taxes paid by the plan. Sixty percent of the total assessment amount directly supports the adultBasic program. The other 40% of the assessment was to be used to fund other community-based endeavors to support the un- and underinsured. For context, BCNEPA's total estimated contribution over the life of the agreement is anticipated to be \$33 million with \$23 million directly funding adultBasic.

Like most companies, BCNEPA finds itself in a much different financial position today than in 2005. For example, in 2005 we had a surplus position of \$410 million. At the end of 2009, our surplus was \$251 million, a nearly 40 percent decrease. We are also embarking on the implementation of federal health care reform, the most major health care policy change we have seen in the history of our industry. The impact of federal

reform on our operations will be significant and the costs of complying with the thousands of new rules and regulations – most of which are largely undefined at this time – will also be significant. And we are operating in a national and state economy that is far less secure and stable than it was five years ago as reflected by a diminished commercial customer base.

### **Taxes and Community Commitment**

Many represent that the CHRA and now H.B. 2455 are a “fair substitution” since the Blues do not pay taxes. This is misleading and untrue. In fact, since 2005, BCNEPA has paid \$35.8 million in federal taxes.

It is also stated that the CHRA is appropriate because the Blue plans are exempt from the state's premium tax. This is also not true. BCNEPA does pay premium taxes on our for-profit business and has paid \$19.5 million in premium taxes since 2006.

Only the business under our non-profit companies (specifically Hospital Service Association of Northeastern Pennsylvania and First Priority Health, our HMO) is exempt from the state premium tax. Examples of products that are offered under our non-profit companies are CHIP, adultBasic, Special Care (for low-income individuals), senior products and co-op, which is our “insurer of last resort” product. These products – ironically those proposed to be taxed at 2.4% under H.B. 2455 - enroll the most vulnerable of our members.

Another important point for the Committee to understand is that our community commitment is in no way fully defined by or limited to the CHRA agreement. Long before this agreement, Blue Cross of Northeastern Pennsylvania supported the products and programs we previously mentioned – those that enroll our most vulnerable members and those that no other insurers will cover. Over the last five years, we have subsidized non-group products in an amount exceeding \$133 million.

It is true that the tax status of BCNEPA's non-profit companies has resulted in a \$55 million “exemption” from the state's premium tax over the life of the CHRA. However, during this same time period, we have subsidized our non-group products by more than \$133 million and have provided through our Blue Ribbon Foundation more than \$6 million in grants aimed at improving health and wellness in our 13-county region, including programs that specifically benefit those without health insurance. Bottom line: BCNEPA has spent nearly \$140 million for the privilege of our \$55 million state premium tax exemption.

### **Recommendations and Conclusion**

As we move forward in this debate, BCNEPA offers the following recommendations:

- The Commonwealth's priority should be the development of a sustainable and fair solution to the financing challenges facing adultBasic.

- The Commonwealth should review the current adultBasic program which has been based on the same insurance model since the program's inception nine years ago.
- The Commonwealth should revisit its commitment to the adultBasic program by restoring tobacco settlement funding of adultBasic back to the original levels.
- The Commonwealth should explore any and all available funding options through federal health care reform.

Taxing those who purchase health insurance – and specifically those who purchase insurance from the state's Blue plans – is not the answer. The amount BCNEPA would pay in taxes under House Bill 2455 is nearly triple the amount of our CHRA commitment. Our customers are already challenged by the current economic climate and will bear the cost of federal reforms such as the federal health insurance tax. This is not sustainable for our customers or health care costs in northeastern and north central PA. The bill also oversimplifies the complexity of the challenges that face the adultBasic program. Additional taxes are not the solution. House Bill 2455 also contradicts an important premise of federal health care reform, which calls on all health insurers – not just Blue Plans – to take responsibility for the uninsured.

We are prepared to work with the Commonwealth to develop sensible, cost-effective solutions to the challenges facing the adultBasic program. Thank you Mr. Chairman and members of the Committee for this opportunity.