Testimony

before

Pennsylvania House Insurance Committee

on HB 2455

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Good morning Mr. Chairmen and members of the House Insurance Committee. Since you are already quite familiar with the essence of the discussion here this morning I thought it might be best if I spoke directly to the issue of why the State's four Blue Plans cannot be expected to continue to fund the ongoing, or possibly expanded, adultBasic program.

Let me begin by responding to a statement made in a recent article that said, in part, "...knowing their nonprofit status puts them in a position to pay no business taxes." Capital BlueCross is a not-for-profit company that competes directly with Highmark, another not-for-profit company, as well as numerous for-profit companies. We have some 900,000 members and over 2,000 employees. We have no shareholders, we are not publicly traded, nor do we pay dividends.

However, to say we pay no taxes is completely inaccurate. Capital BlueCross is subject to federal and state income taxes and pays corporate net income taxes, capital stock taxes, premium taxes, and local taxes. In 2009 alone we paid over $25 million in premium taxes, over $265,000 in capital stock taxes, and nearly a million dollars in local taxes. The alleged exorbitant tax exemption that we receive from being a not-for-profit is less than $4 million and shrinking.

As important, we subsidize more than $14 million in losses for our individual products, something our competitors do not do. We also subsidize $10 million for our CHIP and our Medicare Supplemental programs and for community health initiatives such as clinics, childhood obesity and senior outreach programs. We also contributed over $500,000 last year to charities such as Pennsylvania Breast Cancer Coalition and the American Heart Association. Overall, our community spending and taxes have risen from less than $10 million in 1999 to over $52 million in 2008.

We are now facing an even bigger economic challenge. The federal health care bill calls for health insurers across the country to pay an extraordinary amount of new taxes to help balance the cost of the federal bill. Beginning in 2014, health insurers will be required to pay $8 billion in new federal taxes with that number rising to $14.3 billion in 2018, with upward adjustments every year thereafter. Since this is a new tax we need to begin preparing for it immediately. The cost to Capital BlueCross will begin at an estimated $35 million per year rising to an estimated $62 million by 2018.

As you know, the Blues subsidy of the adultBasic program is due to expire at the end of this year. Despite the signed agreement calling for an end to our involvement, both the Governor's budget and HB 2455 would require us to continue to subsidize the program at an even higher level than before. The Administration does this while reducing the amount of Tobacco Subsidy funds dedicated to the program each year from a level of $74 million in expenditures when the program began in 2005 to a planned $15 million in

2010. This constitutes an 80% decrease in Tobacco Subsidy expenditures while seeking a substantial increase in contributions from the Blue plans; all while Capital BlueCross's premium taxes paid to the general fund continue to rise.

For Capital BlueCross our CHR obligation would be an estimated $15 million. That's $15 million paid to the CHR fund while paying over $25 million in premium taxes to the general fund, and subsidizing our individual offerings, state CHIP, our Medicare supplemental, and community health initiatives by more than $24 million. Meanwhile, our non-Blue not-for-profit and for-profit competitors pay nothing into the fund.

Capital BlueCross would be willing to consider alternatives to fund the adultBasic program for an additional six months but not so long as 95% instead of 60% of the funding is to go directly to adultBasic and our non-Blue competitors are not required to contribute to the program.

We also strongly believe that the program should not be expanded especially in light of the challenge the Commonwealth faces in dealing with its own budgetary concerns. Further, if such financial demands are placed on us we will have little choice but to raise rates, reduce or eliminate the subsidies of the programs already mentioned, and cut-back significantly on community contributions.

Finally, we strongly believe the Commonwealth should return to funding the program at the original Tobacco Fund expenditure level of $74 million annually.

Thank you for your time here this morning and I would welcome the opportunity to answer any questions.