



Pennsylvania House Insurance Committee

Testimony

On

House Bill 2455, Printer's Number 3637

Community Health Reinvestment Agreement Extension

Michael G. Warfel

Vice President, Government Affairs

May 4, 2010

Good morning. I am Mike Warfel, Vice President of Government Affairs at Highmark Inc, a non-profit corporation which provides health care coverage to more than three million Pennsylvanians. I would like to thank Chairmen DeLuca and Miccozie and members of the Committee for the opportunity to appear here today.

I am here to offer comments on House Bill 2455 and to discuss the reasons why we oppose this proposed legislation. While we have a long and proud tradition of supporting efforts to increase the number of Pennsylvanians who have health insurance, we believe that forcing the state's Blue Cross and Blue Shield companies to continue funding the adultBasic program, as this bill proposes, represents misguided public policy. We believe that all insurance carriers – not simply non-profit health insurers -- and other private and public health care industry stakeholders have a shared responsibility to explore sustainable and fair solutions to deal with the health care needs of uninsured Pennsylvanians and those individuals and families currently in the adultBasic program.

Although Pennsylvania has historically had one of the lowest rates of uninsured among the 50 states, recent studies show that the number of people without health insurance is growing at a troubling rate. This issue is very important to Highmark. As a non-profit company, we have strived to provide coverage to a population that many insurers will not, or are reluctant, to insure and to work cooperatively to improve the health and well-being of Pennsylvania communities. We are constantly trying to achieve a very delicate balance between financial stability and upholding the commitment to small groups, individuals and families who may not have insurance available to them.

To quantify Highmark's commitment to the community, I would like to review the past five years from 2005 through the end of 2009. During this period, Highmark provided almost \$800 million in community contributions, which included \$511 million to fulfill the commitments under the Community Health Reinvestment (CHR) Agreement.

How was the money used? From 2005 through 2009, \$300 million in cash was provided to the state and used to support the adultBasic program. Another \$300 million has been used to expand access to health care coverage for lower-income families, seniors and uninsured children under the state's Children's Health Insurance Program. These monies include the subsidies that Highmark has provided for decades to our individual insurance programs so that Pennsylvanians that purchase insurance directly from us -- and often have no other health insurance options -- pay substantially less in premiums than they would without the subsidies.

In addition, Highmark has provided grants, programs and support aimed at addressing community health needs. Our funding reaches the community primarily through non-profit partners who are doing important, evidence-based work and serving vital needs. Together, with our partners, we support programs such as medical and dental clinics for the uninsured, health demonstration projects, and physical fitness programs for children. Moving forward, we will continue to work to address the health care needs of all segments of the community in the Commonwealth.

I would like to take a moment to clarify a point that is often a source of confusion.

Highmark is a non-profit corporation, but we also pay taxes. Because of our non-profit status, Highmark, but not our for-profit subsidiaries, is exempt from some state taxes, most notably the state's insurance premium tax. In 2009, the estimated savings resulting from the premium tax exemption was \$88 million. But the premium tax exemption must be balanced against the community contributions our company makes. Last year, for every dollar in taxes not paid because of the premium tax exemption, Highmark contributed \$1.40 to the community. To further amplify the point about taxes, consider this: Over the last five years, Highmark and its affiliates paid \$727 million in federal, state and local taxes.

Any discussion to extend the current CHR agreement as the primary funding source for the adultBasic program must be viewed in a broad context. Simply put, the environment today is far different, far more complex and filled with far more financial risks than the one in 2005, the year Highmark and the other Blue companies entered into the CHR Agreement.

The staggering effects of the worst recession since the 1930s has created severe state budgetary pressures and forced many private employers to drop health care coverage for their employees. As a result, Highmark has lost membership in Pennsylvania.

Highmark is also being squeezed by hospitals and physicians, who are feeling financial pressures as reimbursements from government programs continue to lag behind the actual cost of providing new and more complex levels of care for their patients. All too often, providers try to offset lower public payments with higher commercial payments, which in turn makes private health insurance less affordable for employers. In addition to this hidden tax, the privately insured also must bear the costs associated with bad debt and charity care provided to individuals without insurance.

The jobless recovery and the rapidly changing health care landscape present financial challenges for Highmark at a time when we need even more capital to satisfy the demands of our customers for new goods and services and to pay for new information technology capabilities to operate our business more efficiently. We also are incurring greater costs to comply with an increasing number of government mandates associated with all aspects of our business.

Add to all of this, the newly passed federal health care law will place untold requirements on health insurance companies that we are only now beginning to grasp. The law will change the health care system in profound ways: How people buy insurance. How health care is paid for – including a variety of new taxes and/or expanded taxes. And how government regulates the health care system.

An underlying goal for the health insurance reforms in the new law is uniform rate regulation for all health insurers as a means to promote fair competition in the health insurance marketplace. In contrast, House Bill 2455 appears to favor some insurers over others by forcing only non-profit insurers, basically, the state's Blue Cross and Blue Shield companies and their customers, to shoulder a large part of the financial responsibility for sustaining adultBasic.

In light of the fragile economy and tremendous state budgetary pressures, you have a difficult decision to make relative to this legislation. The CHR Agreement was intended to be only a temporary funding solution to address the needs of the state's uninsured; it should not be viewed as a viable, comprehensive answer to a more deep-seated question about whether the Commonwealth can afford to maintain important programs such as adultBasic given the financial challenges facing the state.

We will continue to meet our obligations under the CHR Agreement until it expires at the end of December 2010, but we are opposed to a multi-year extension of the current agreement as envisioned by this bill.

While Highmark realizes that the Commonwealth faces financial pressures in maintaining the adultBasic program, we believe all participants in the public and private health care sectors have a shared responsibility to craft a broad-based, sustainable funding source for adultBasic.

Thank you, and I welcome the opportunity to answer any questions you may have regarding our position on the bill and our perspectives on the CHR Agreement.