

**Testimony before
The House Insurance Committee**

**Presented by:
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Independence Blue Cross**

Tuesday, May 4, 2010

Thank you for inviting Independence Blue Cross to appear before your Committee today to testify on House Bill 2455. We have reviewed the bill, which would provide funding for adultBasic by requiring Independence Blue Cross and the other three Blues in Pennsylvania to extend the Community Health Reinvestment Agreement for three years or until the new state exchanges in the federal health reform law are up and running. We oppose HB 2455 as it would extend an agreement that was always viewed as a six-year commitment. If enacted, HB 2455 would continue to place a disproportionate and unfair burden on Independence Blue Cross, and it would continue to impose a tax on our individual customers, many of whom have lost jobs, and on our group customers, who are committed to offering health care to their employees, but who are struggling in this difficult economy with reduced revenue and increased costs. I appreciate the opportunity to present our views this morning.

Background on Independence Blue Cross

A not-for-profit Hospital Plan Corporation, Independence Blue Cross (IBC) is headquartered in Philadelphia, and has 2.4 million members who live in the Philadelphia region and 3.2 million members nationwide. We employ 5,200 associates who serve our more than 45,000 employer group customers, all but four percent small businesses with fewer than 100 employees. We provide our customers a wide range of health plans in all lines of business – individual health plans, small employer group plans, large employer group plans, Medicare, Medicaid, and guarantee issue plans, which we offer to people regardless of their health and which no other insurer in our market offers.

In addition, we offer our members the broadest network of health care providers with 158 hospitals and more than 36,000 physicians and other health care professionals in southeastern Pennsylvania. We also offer progressive worksite wellness programs to help employers reduce medical costs and innovative disease management programs to help the chronically ill stay well.

Finally, one of the factors that most clearly distinguishes us from our competitors is that we have always been committed to building the health of our community, which we call our “social mission” – work that at its heart serves those who are underinsured and uninsured.

adultBasic and the Community Health Reinvestment Agreement

As part of our commitment to our social mission, in 2005 we voluntarily joined the other three Blue Cross and Blue Shield insurers in Pennsylvania and entered into the Community Health Reinvestment Agreement. The Blues committed to a defined level of financial support for community health reinvestment endeavors for six years beginning in 2005 and ending in December of 2010. One of the primary goals of the Agreement was to fund adultBasic and other state-sponsored health insurance programs for low-income persons. Since we entered into the Agreement five years ago, we have always viewed it as a six-year agreement, one that afforded the Commonwealth sufficient time to plan for and identify ongoing funding for these critical programs after the Agreement expired. During the term of this Agreement, we have not only honored our funding commitment, but significantly exceeded it.

From the Agreement’s inception in 2005 through 2009, IBC has spent approximately \$424 million – a combination of our commitment under the Agreement and other additional community health activities, all work which we consider our social mission.

Of this total amount, we spent approximately \$189 million in direct support of “state-approved programs for persons of low income,” including the CHIP and adultBasic programs. The vast majority of the remaining \$235 million has been used by IBC to subsidize, and make more affordable, our guarantee issue health insurance plans, those plans we offer to people regardless of their health and which no other insurer in our market offers. These are plans for individuals who are not covered by employer-sponsored plans, people who often struggle the most to provide coverage for themselves

and their families. In 2010, we expect to spend tens of millions of additional dollars in support of our social mission.

It is worth pointing out here that we spent this roughly \$424 million on our social mission during the term of the Community Health Reinvestment Agreement *in addition to the taxes we paid during this period*. In fact, **from the inception of the Agreement in 2005 to the end of 2009, IBC also paid \$259 million in Pennsylvania state premium taxes.**

It is also important to point out that while we spent roughly \$424 million on our social mission and paid \$259 million in state premium taxes during the term of the Community Health Reinvestment Agreement, we *did not* realize a tax exemption anywhere close in value to these payments. In fact, **from the beginning of the Agreement in 2005 to the end of 2009, IBC received a total tax exemption of approximately \$50 million.**

Attached is a slide that details the amount spent by IBC on social mission, the Community Health Reinvestment Agreement, and state premium taxes. What you will see is that in 2005 when the Agreement began, we spent \$128 million on our social mission and state premium taxes, but our state tax exemption was only \$10 million. By 2009, we spent \$158 million on our social mission and state premium taxes, but our state tax exemption had gone down to \$9.8 million.

To place IBC's social mission and premium tax commitment into perspective, during the term of the Agreement:

- **From 2005 to 2009, IBC spent \$424 million for community health purposes, or our social mission – more than 8 times our tax exemption of \$50 million.**
- **From 2005 to 2009, IBC spent almost \$683 million – the \$424 million spent on social mission plus the \$259 million paid in premium taxes – or almost 14 times our tax exemption of \$50 million.**

All of this has taken place in a market where our competitors pay premium taxes, but they are not asked to spend a single dollar to support the state's community health reinvestment activities. All of this has also taken place as the economic climate and business conditions in our region have altered dramatically during the most severe economic decline since the Great Depression.

So as we look at the expiration of the Agreement in December of this year, you can see the significant impact that the Agreement has had upon our company, our business, our customers, and our employees and the unsustainable and inequitable burden the Agreement creates on all these entities.

Moving forward

Moving forward, we recognize the immediate budget implications that result from the expiration of the Agreement in the middle of the Commonwealth's 2010-2011 fiscal year. While IBC fully understands the adultBasic funding issue created by the expiration of the Agreement and supports the public policy goal of reducing the uninsured, neither of these issues were created by IBC or by the other Blue Plans. For that matter, as much as we might like to solve the challenge of the uninsured ourselves, we cannot solve it alone. Any solution needs the coordinated support and participation of the Federal Government and the Commonwealth, as well as all health insurance carriers, hospitals, and health care providers who do business in the Commonwealth. We remain committed to working with the General Assembly and the Administration to develop ways that IBC and all stakeholders can work together towards this solution

As you consider alternative solutions, I would like to highlight several significant points that are often overlooked about Independence Blue Cross and our status as a not-for-profit Hospital Plan Corporation. I believe these are critical elements that must be taken into consideration by the General Assembly. While our parent company is a not-for-profit hospital plan corporation:

- **Independence Blue Cross is *not* a charity – in fact, we pay taxes.** Although our corporation is a not-for-profit, we pay local, state, and federal taxes, just like for-profit health insurers in Pennsylvania. In fact, Congress took away Blue plans' federal tax exemption in 1986. In 2009, for example, IBC paid \$93.9 million in local, state, and federal non-payroll taxes, including \$52.1 million in Pennsylvania premium taxes. As I said previously, the only tax exemption for which IBC qualifies, based on its not-for profit status at the parent company level, totals about \$10 million per year. Although we are not a charity, we are committed to our social mission of serving the needs of our community – committed to supporting those who run nonprofit medical clinics in Pennsylvania for low-income, mostly uninsured people; committed to supporting nursing students who are struggling to pay nursing school tuition; and particularly committed to supporting the needs of uninsured. That is why from 2005 to 2009, IBC spent \$424 million on our social mission.

- **Independence Blue Cross is required by the Pennsylvania Insurance Department to maintain a surplus.** While we are not for profit, the Pennsylvania Insurance Department requires our company to maintain a surplus to assure that the company has the resources in reserve to pay outstanding claims for subscribers. After 71 years of service to our customers, Independence Blue Cross's level of surplus was \$1.6 billion in 2009. This level falls within the "efficient" surplus range, as defined by the Pennsylvania Insurance Department's guidelines and would cover less than 60 days of claims. In fact, the PID is proposing to *strengthen* its oversight regarding surplus levels to make sure the insurance industry in Pennsylvania does not have the thin levels of capitalization that led to the disasters of the last few years in the financial industry nationally. In his recent budget hearing before the House Appropriations Committee, Pennsylvania Insurance Commissioner Joel Ario noted that while Pennsylvania's Blues' reserves took a 20 percent hit in 2008 because of the drop in

financial markets, they appeared to be bouncing back, but he went on to observe that “there is no such thing as too much reserves.”

It is against this backdrop that some in the Administration and General Assembly have proposed that we consider extending the Agreement to continue funding programs for the uninsured. Unfortunately, we are not in position to extend the Agreement for the next three years. In an effort to help address immediate budget implications that result from the expiration of the Agreement in the middle of the Commonwealth’s 2010-2011 fiscal year, I communicated last week with Chairman DeLuca (a copy of my letter is attached) that under certain conditions Independence Blue Cross would be willing to discuss a temporary, six-month extension of the Agreement to continue our support of adultBasic and other state-sponsored health insurance programs. Such an extension would include a limit on IBC’s participation that is equivalent to our tax exemption, unless there is similar participation by all health insurers in Pennsylvania. My letter goes on to address several other elements that we believe should be considered.

First, we believe that the Commonwealth should restore the level of annual support for adultBasic from the Tobacco Settlement Fund to the \$74 million spent in FY 2005-2006. Pennsylvania introduced adultBasic in 2002 to offer basic insurance coverage to low-income adults who do not qualify for Medicaid. The funding for adultBasic was to be allocated from the Tobacco Settlement Fund. However, each year since the Community Health Reinvestment Agreement was signed in 2005, the state has reduced the dollars allocated from the Tobacco Settlement Fund for adultBasic. In fiscal year 2005-2006, the level of support for adultBasic from the Fund was \$74 million, but in the current fiscal year this adultBasic funding has been reduced to \$38 million and the Governor’s proposed budget would further reduce this amount to \$15 million. Before looking for other funding sources for adultBasic, the state should first use the Tobacco Settlement Fund monies as intended – for adultBasic.

Second, as contradictory as it may seem for a company that has been dedicated for 71 years to building the health of our community through our social mission, which largely

focuses on serving those who are underinsured and uninsured, we must reluctantly suggest that the Commonwealth freeze further expansion of the adultBasic program – at least until the funding for this important program has been fully addressed by the General Assembly. As you know, the Governor’s 2010-2011 budget proposes increasing the number of people covered by adultBasic from 40,000 to 50,000, at time when there is great uncertainty about the future viability of this program.

I understand that passions run high when discussing the uninsured. Being uninsured is devastating. Addressing the problem of the uninsured is critical to the wellbeing of our state. What’s more, the scope of the issue in Pennsylvania is large and the cost is even larger.

For 71 years, Independence Blue Cross has worked hard to become the company of choice for millions of customers living and working in Southeastern Pennsylvania who need health care coverage. We look forward to serving the needs of our community long into the future. We pledge to work with your offices, the General Assembly, the Administration, and all stakeholders to develop long-term solutions to the problem of the uninsured.

However, it is unreasonable to expect that a problem of this magnitude can be addressed solely by funding from the customers of Pennsylvania’s four Blue Cross and Shield plans. It cannot. If you codify this agreement as proposed, it will amount to a tax on our members, making health insurance less affordable for those who purchase our plans. In our view, addressing the problem of the uninsured is a Pennsylvania problem, not just a Blue problem. Accordingly, we recommend against HB 2455.



April 28, 2010

**VIA FACSIMILE AND
OVERNIGHT DELIVERY**

The Honorable Don White
Chairman, Senate Banking and Insurance Committee
Senate Box 203041
286 Main Capitol Building
Harrisburg, PA 17120-3041

The Honorable Anthony M. DeLuca
Chairman, House Insurance Committee
115 Irvis Office Building
PO Box 202032
Harrisburg, PA 17120-2032

Re: The Community Health Reinvestment Agreement

Dear Chairman White and Chairman DeLuca:

As you know, the Community Health Reinvestment Agreement entered into in 2005 between the State's four Blue Plans and the Pennsylvania Insurance Department is set to expire on December 31, 2010.

Given the pending expiration of the Agreement, the question has been asked as to whether Independence Blue Cross (IBC) and the Blues would be willing to renew the Agreement. While we cannot speak for other Blue plans, we thought it was important to provide you with some facts surrounding IBC's commitments under the Agreement and our perspective with regard to extending it.

Background

Entered into between the four Blue plans and the Pennsylvania Insurance Department, the Agreement was designed for "improving health care, to make health care more affordable and accessible, and to benefit the communities in the Blue Plans' respective Service areas." The

Blues committed to a defined level of financial support for community health reinvestment endeavors beginning in 2005 through December of 2010.

From the Agreement's inception through 2009, IBC has honored its commitment and has spent approximately \$424 million, which we refer to as our "social mission." Of this amount, IBC has spent approximately \$189 million in direct support of state-approved programs for persons of low income, including the CHIP and adultBasic programs. The vast majority of the remaining \$235 million has been used by IBC to subsidize some of our guarantee issue health insurance products to make them more affordable. In 2010, IBC expects to spend tens of millions of additional dollars in support of our social mission.

We believe it is important to note two facts that are frequently misunderstood. First, we pay taxes. We pay federal income taxes, we pay state corporate income and premium taxes, and we pay local taxes. In fact, from the inception of the Agreement in 2005 to the end of 2009, IBC paid \$259 million in Pennsylvania state premium taxes. Second, IBC receives an annual tax exemption of roughly \$10 million per year because of IBC's not-for profit status at the parent company level. From the inception of the Agreement in 2005 to the end of 2009, IBC received a total tax exemption of approximately \$50 million.

To place IBC's CHR commitment into perspective, between 2005 and 2009:

- IBC spent \$424 million for community health purposes, or our social mission -- **more than 8 times our limited tax exemption.**
- IBC spent almost \$683 million -- the \$424 million spent on social mission plus the \$259 million paid in premium taxes -- or **almost 14 times our limited tax exemption.**

All of this has taken place in a market where our competitors pay premium taxes, but they are not asked to spend a single dollar to support the state's community health reinvestment activities.

So as we look at the expiration of the Agreement, we believe it is important for you to hear from us directly regarding the immediate impact that the Agreement has had upon our company, our business, our customers, and our employees, and for you to understand that this is an unsustainable and inequitable burden on all these entities.

Moving forward

It is against this backdrop that some have proposed extending the Agreement to continue to fund programs for the uninsured.

While IBC fully supports the public policy goal of reducing the uninsured, this issue has not been created by IBC or the other Blue Plans. As much as we might like to solve the challenge of the uninsured ourselves, we cannot solve it alone. Any solution needs the coordinated support and participation of the Federal Government (given the recent passage of the Patient Protection and Affordable Coverage Act) and the Commonwealth, as well as all health insurance carriers, hospitals, and health care providers who do business in the Commonwealth.

Recognizing the immediate budget implications facing the Commonwealth, we believe it is imperative that we not lose sight of the real question: *How will we, as a Commonwealth, provide health care coverage to the uninsured in an efficient and cost-effective manner?*

Any solutions that focus solely on the financial implications to the Commonwealth of the expiration of the Agreement, without addressing the underlying causes, will not work.

Recognizing the public policy implications of the expiration of the Agreement, and the implementation of federal health care reform, IBC is committed to working with the General Assembly and the Administration to develop ways that IBC and all stakeholders can work together to solve these problems.

However, as the Commonwealth tries to work through these issues, we understand the short-term budget implications that result from the expiration of the Agreement in the middle of the Commonwealth's 2010-2011 fiscal year.

Six-month solution to extend Agreement

IBC is willing to discuss a temporary, six-month extension of the Agreement to continue our support of adultBasic and other state-sponsored health insurance programs for low-income persons. We believe that such a solution would need to include the following:

- A limit on IBC's participation that is equivalent to its tax exemption (three-year average). IBC would be willing to participate beyond this limit, but only to the extent that there is similar participation of all health insurers operating in Pennsylvania, especially other non-profit insurers, not just the Blue Plans;
- A funding formula based on premium AND premium-equivalents (i.e., self-funded, ASO, etc.); Blue Plans with more fully insured business than self-funded pay a disproportionate share under the Agreement;
- A funding formula that excludes the premium (and premium equivalents) for Medicare and Medicaid products, as well as adultBasic and CHIP, because they are government-sponsored programs;
- An acknowledgment by the Insurance Department that the Blues should not be required to subsidize any products as long as they can document the full use of any tax exemption for community health reinvestment/social mission purposes each year.

To further fund the gap left by the expiration of the Agreement, we believe the Commonwealth should take the following steps:

- Restore the level of support for adultBasic from the Tobacco Settlement Fund per year to the approximately \$74 million spent in FY 2005-2006, rather than the approximately \$38

million allocated from the Fund in FY 2009-2010, or the even smaller \$15 million proposed in the Governor's Budget for FY 2010-2011.

- Freeze the current number of adultBasic members, and if expansion is a priority, agree that the Commonwealth will bear the total funding responsibility for additional members.

Conclusion

For more than 71 years, we have worked hard to become the company of choice for millions of customers living and working in Southeastern Pennsylvania who need health care coverage. We look forward to serving the needs of our community long into the future. We pledge to work with your offices, the General Assembly, the Administration and all stakeholders to develop long-term solutions to the problem of the uninsured. However, IBC and other Blue Plans cannot continue to shoulder this burden alone.

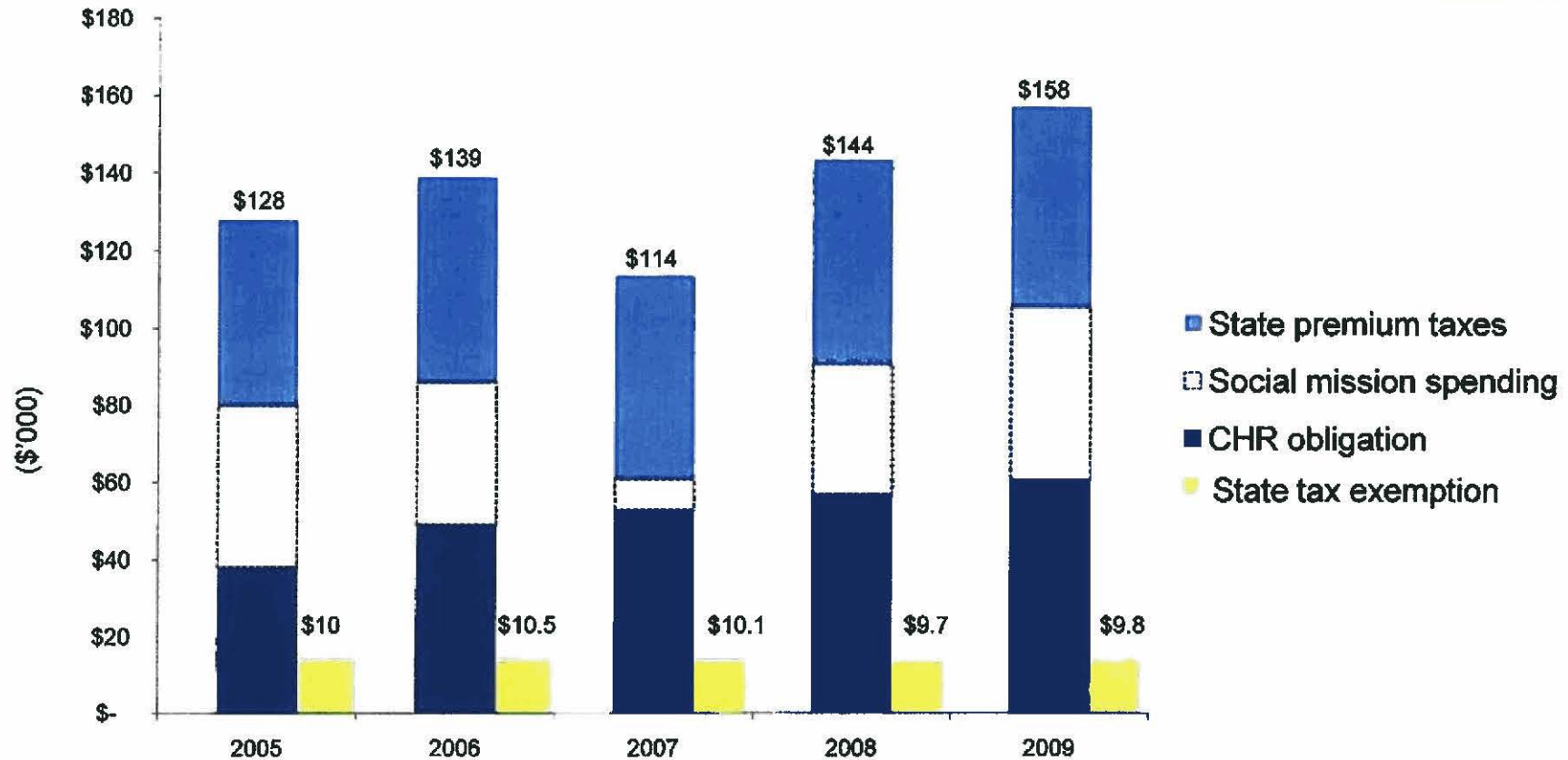
Sincerely,



Christopher Cashman
Senior Vice President
Corporate and Public Affairs

Cc: The Honorable Joseph Scarnati, Senate President Pro Tempore
The Honorable Dominic Pileggi, Senate Majority Leader
The Honorable Jake Corman, Chair, Senate Appropriations Committee
The Honorable Robert Mellow, Senate Democratic Leader
The Honorable Jay Costa, Minority Chair, Senate Appropriations Committee
The Honorable Mike Stack, Minority Chair, Senate Banking & Insurance Committee
The Honorable Keith McCall, Speaker of the House
The Honorable Todd Eachus, House Majority Leader
The Honorable Dwight Evans, Chair, House Appropriations Committee
The Honorable Sam Smith, House Minority Leader
The Honorable Bill Adolph, Minority Chair, House Appropriations Committee
The Honorable Nick Micozzie, Minority Chair, House Insurance Committee

2005 – 2009: CHR, Social Mission and Premium Tax vs. State Tax Exemption



2005 - 2009 CHR + Social Mission + premium tax = \$683 million
2005 - 2009 State tax exemption = \$50.1 million