

Highmark Inc.

Testimony

Joint Hearing on Health Insurance Rate Increases

Pennsylvania

House Insurance Committee and House Majority Policy Committee

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Good morning. My name is Jim Fawcett, and I am a Senior Vice President at Highmark Inc. My responsibilities include marketing insurance products to small employers and individuals in the western and central parts of the state. With me today is Mike Warfel, Highmark's vice president of government affairs.

I would like to thank Chairman DeLuca and members of the Committees for the opportunity to appear here today.

I'm here to discuss some of the problems with the small employer insurance market in Pennsylvania that have contributed to higher health insurance rates for small businesses. Let me begin by quoting some comments from a few years ago about health insurance and small employers: "Talk to small business owners in Pennsylvania, and two messages come through loud and clear. First, they want stability in health insurance costs, so they no longer face the sudden and significant rate increases due to unforeseen events, such as an employee being diagnosed with cancer or a dependent giving birth to a seriously ill newborn.

Second, they want an insurance system that is fair and just. One that does not encourage insurance companies to avoid covering workers with chronic medical conditions, while targeting only those companies with workers in the best of health. They want rules and regulations that move the state toward restoring the true purpose of health insurance – spreading the health risks and costs so that all workers at small companies share the responsibility of covering the cost of services for workers in poorer health.”

These words were part of testimony Highmark presented at a legislative hearing almost five years ago. At the time, we called for enactment of legislation to reform small group health insurance. We urged the General Assembly to impose a ban on the use of medical screening questionnaires to set insurance rates. This would have eliminated the “pay your own freight” mentality that undermines the whole notion of health insurance for small employers in the Commonwealth.

We called for a requirement that all insurers follow the same rules in setting rates for small employers. Uniform regulation of rate-setting for small employers would remove the unfair practices in the market that de facto permit commercial insurance carriers to deny health care coverage to those small employers who need it most.

Unfortunately, the state is no further along in helping small employers obtain affordable health insurance than we were five years ago.

Pennsylvania stands alone as the only state that has not passed legislation to improve the small employer insurance market. The state continues to have a different set of rating regulations for non-profit insurers and commercial carriers.

I bring up this bit of history because we find it ironic that Highmark is the only health insurance company represented here today to explain the reasons for higher insurance premiums. It is particularly disappointing for us because for more than seven years, Highmark has strongly championed legislation that would help stabilize the cost of small group health insurance for small employers and provide more insurance choices for all small employers – not just small business owners with healthy employees.

It is also worth noting that in this current environment, Highmark has supported greater state regulation of our own industry for the overall public good, while our competitors in the commercial insurance industry have fought against small group reform legislation.

For more than seven years, Highmark has urged the General Assembly to establish fairer market rules built around a single, uniform method of setting rates that applies to all insurance carriers. (We have listed all of our testimony and public comments at the end of my remarks.) We see no valid policy reason why Pennsylvania should have different sets of rating rules for different types of insurers. Despite our best efforts to raise awareness about the urgent need for small group reform, state government action on this critical issue remains elusive.

Make no mistake, the state's broken small group health insurance market is not the only reason why health insurance premiums continue to increase – sometimes at unacceptable levels. Ever-rising medical costs are a major driver of higher health insurance costs. In fact, for every dollar of insurance premiums that Highmark receives, 90 cents is used to pay for medical care our members receive.

The combination of increasing medical costs, a fragile economy and the state's current unworkable group health insurance market are forcing more small employers to drop coverage altogether, further swelling the ranks of the state's uninsured population.

Highmark understands that the premium increases represent a burden for many small companies and organizations, although our average rate increases for the July 2010 period have been consistent with the small employer premiums of other health insurers.

In fact, approximately 70 percent of our small group members in Pennsylvania work for employers who received rate increases of 10 percent or less. Almost 10 percent of our members are employed by small groups that actually received a rate decrease. As you are hearing today, some of our small group members – representing less than 5 percent – received rate increases well above the average.

To a large extent, the larger rate increases were the result of a change we made in July in the way we offered small group insurance products to operate under the same set of regulatory rules as other insurance companies do in the state.

We took this step now to remain a viable option for Pennsylvania small employers, as we have been for decades. For example, Highmark had three consecutive years of net membership losses in the small employer insurance market, dropping from 333,000 members in 2007 to 269,000 in 2009. During this same period, Highmark has lost more than \$72 million on this book of business.

In light of this challenging business environment, Highmark faced difficult choices. We could abandon a line of business that was not sustainable over the long term. This was an unacceptable path given our tradition of serving the small employer market. Or we could remain a viable option for Pennsylvania small employers leading up to the introduction of the state-based purchasing exchanges in 2014.

We have chosen the latter course – to reinforce our commitment to serving the small employer market in Pennsylvania.

The changes Highmark has implemented will allow the company to compete fairly against for-profit health insurers that currently have virtually no rate regulation on how they price their insurance products for small companies.

At the same time, we are taking steps to identify opportunities for many small employers to lower the cost of their health benefits through changes in benefit design. Unlike most mid- and large-size employers, a significant portion of Highmark's small employer customers still offer "Cadillac" benefit programs with virtually no cost sharing by employees.

We are working cooperatively with producers and associations to encourage small employers to offer health benefit programs that include varying levels of coinsurance and deductibles, and high-deductible health plans, to help control their costs. Specifically, all of Highmark's small group customers may select alternative coverage options – with lower rates. In addition, our wide range of non-group individual products is another insurance option that is available to the self-employed and other small employers.

We are also sustaining and building upon programs to control rising medical and drug costs. Our efforts to control rising health care costs and improve the quality of care are built around trying to reduce the unwarranted differences in how patients are treated for the same medical condition. Highmark's focus is on helping to ensure that medical care for our members is consistent with proven evidence-based guidelines.

In closing, let me reiterate that we continue to urge the General Assembly to pass small group reform legislation. We believe small group insurance reform must stabilize small employer health insurance premiums by banning medical underwriting, creating uniform rating rules for all insurers and restoring the true purposes of health insurance – which is spreading health risks and health costs across a large community.

The new federal health care reform law reflects these basic insurance market principles, which Highmark has advocated for years. We believe that Pennsylvania should not simply wait until 2014 for insurance reform to take effect. During this interim period, small employers in the state should not lose virtually all health insurance choices or be forced to cut back or drop coverage because one employee becomes seriously ill or because they employ older workers.

Thank you for the opportunity to express Highmark's views on this important issue. I will be happy to answer any questions you may have.

Chronological Listing of Highmark's Testimony and Comments for the Record to the Pennsylvania House Insurance Committee and the Senate Banking & Insurance Committee Regarding the Need for Small Group Rating Reform

1. June 16, 2003
Pennsylvania Senate Banking & Insurance Committee
Senate Bill 671
William Cashion, ASA, MAAA, Chief Actuary & Vice President, Highmark
2. July 20, 2004
Pennsylvania House Insurance Committee
House Bill 2682
William Cashion, ASA, MAAA, Chief Actuary & Vice President, Highmark
3. April 5, 2005
Pennsylvania House Insurance Committee
House Bill 1201
Candy Gallaher, Director of Regulatory Affairs, Highmark
4. August 9, 2005
Pennsylvania House Insurance Committee
House Bill 1741
Kenneth R. Melani, M.D., President & CEO, Highmark
5. August 30, 2005
Pennsylvania House Insurance Committee
House Bill 1741
Paul R. Fleischacker, FSA, MAAA, Consultant
6. September 22, 2005
Pennsylvania House Insurance Committee
House Bill 1240
Deborah Rice, Senior Vice President Regional Markets, Highmark
7. November 15, 2007
Pennsylvania House Insurance Committee
House Bill 2005
Michael G. Warfel, Vice President, Government Affairs, Highmark
8. March 12, 2009
Pennsylvania House Insurance Committee
House Bill 746
James Fawcett, Vice President Strategic & Large Markets