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To: The Honorable Members of the House Insurance Committee

From: Samuel R. Marshall and Jonathan C. Greer

Re: Health insurance rate increases

While we can only be with you in spirit for tomorrow's Pittsburgh hearing, we want to make sure that spirit includes some written comments for the record.

First, let's all acknowledge that health premiums continue to go up, across Pennsylvania and across the country. Certain situations are unique, and maybe Highmark's shifting of its small employer business to one of its for-profit subsidiaries is one of them. We appreciate that is the primary focus of the July 20 hearing, and we have some observations specific to it.

But everyone should recognize that, in a broad sense, the continued premium increases reflect that health care continues to be heavily used, and that we still haven't focused - either at the state level or in the federal reforms - on controlling costs. The reform effort has, so far, been more focused on getting everyone covered, not on making that coverage affordable.

We'll dispel one urban legend at the outset: The continued premium increases aren't in anticipation of the federal reforms taking effect over the next three years. While there may be some increases to reflect the reforms, they will generally be just that - a reflection, not in anticipation.

We'll also raise a question for both the General Assembly and the administration: What steps have been taken in Pennsylvania this session to hold down costs?

We have offered four initiatives: more competition among insurers, more utilization review, a focus on core benefits, and a focus on curbing the cost of defensive medicine. Other groups have offered their own initiatives, some similar and some different.

Yes, the focus has been and will be on enacting and implementing the federal reforms. Still, there is much that could be done at the state level, and we hope forums like this jump-start greater cooperation and productivity. You can disagree with our initiatives, or refine them, or come up with your own - but let's discuss them and act on them.

Turning to Highmark's recent small group rate increases and the western Pennsylvania small group market generally:

- Highmark claims it has lost roughly 20% of its small group members in the last few years. Its loss of members - at least from our experience - doesn't reflect increased competition from other insurers. It more likely reflects the harsh economy, with small employers dropping coverage. More rating restrictions that favor Highmark but hurt its competitors won't stop that; ultimately, only an improved economy will - but a renewed focus on holding down costs and enhancing competition would help.

- We're not sure what changes in underwriting and rating restrictions Highmark is making as it moves its small group business from its non-profit to its for-profit operations. We're also not sure those changes - which apparently don't include consideration of health status or the use of medical underwriting - were either necessary for Highmark to remain competitive or could only be done through its for-profit operations.

- Highmark claims that somehow its ongoing rate increases could be avoided if insurers with much small market shares were subject to more rating restrictions; Commissioner Ario might endorse that approach, if not guarantee the result.

- Let's get real: Highmark doesn't need more stringent small group rating restrictions on other insurers between now and 2014 for it to stay afloat in western Pennsylvania. It talks about unfair competitive pressures. And yet the review of the Highmark/IBC merger found its market domination to be unthreatened. And Highmark is suing the Insurance Department to block its examination of Highmark's competitive practices. Generally, the one threatened by unfair competition welcomes an examination; the one who might be competing unfairly doesn't.

Turning to small group rating as a general issue:

For better or worse, the federal reforms have answered this: Pennsylvania will be covered under a "modified community rating" standard by January 1, 2014. As insurers with smaller market shares in Pennsylvania, we realize this puts considerable pressure on our effort to compete against much larger regional monopolies.

Still, we are committed to that effort. A number of the federal reforms also timed to 2014 - namely the establishment of insurance exchanges and the requirement that consumers and employers buy coverage - will determine whether that effort for a competitive market succeeds.

We ask that you not take any steps in the interim to disrupt this or erode the prospect of a competitive health market. We are moving toward the federal reforms, not away from them. But accelerating the federal rating restrictions, without any of the other reforms and without completion and contemplation of the Insurance Department's examination of Highmark's competitive practices, doesn't benefit competition, and it doesn't benefit consumers.

We recognize that excessive increases at renewal are a problem for small employers. To that end, as Commissioner Ario and a number of you know, and as Highmark knows, we have endorsed as an interim measure the following:

- All insurers refrain from any increased use of medical underwriting or health-based rating restrictions at initial issuance between now and 2014;

- All insurers refrain accept a 25% cap on renewal increases based on claims experience or health status.

One final observation: With the advent of the federal reforms, health insurance - of Highmark and everybody else - is going to be much more regulated, at both the federal and state levels. We ask that before enacting any new layers and levels of state regulation, whether with small group rating or mandates or network requirements, you first ascertain two things:

- That any new state regulations not done as part of the federal reforms make coverage more affordable and better for all - meaning that they hold down costs, not just shift them.

- That any new state regulations be done in ways that hold down administrative costs, of insurers and the state, as much as possible. Insurers face considerable pressure to hold down their administrative costs (that's what mandated Medical Loss Ratios mean). State regulators should be facing the same pressure during the Commonwealth's own budget woes. As we embark on a new era of added regulation, let's make sure its costs benefit consumers.

As always, thanks for the chance to comment. We look forward to working with this committee and all interested parties in the never-ending effort of providing affordable and needed coverage and care to all Pennsylvanians.