

Testimony

Senate Banking and Insurance Committee

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Good morning Mr. Chairman and members of the Senate Banking and Insurance Committee. Thank you for the opportunity to testify before you today regarding Senate Bill 400 and the concept of a single-payer system. Since I have only a few minutes I will keep my comments brief and to the point.

- I'd like to begin by explaining that the four Blue Plans in Pennsylvania are all not-for-profit companies. We are not listed on the New York Stock Exchange, neither do we have shareholders, nor do we pay dividends. We are regulated by the Pennsylvania Department of Insurance and must maintain adequate reserves in accordance with state law and the requirements of the Blue Cross and Blue Shield Association.
- According to the Pennsylvania Insurance Department, 92% of Pennsylvanians are covered by some form of health insurance. Most coverage is employer-based either through self-insurance programs or insurance purchased from the myriad of health insurance companies doing business in Pennsylvania. SB 400 calls for the takeover of that system by state government.
- Under the bill, the state, through an appointed board, would dictate benefit levels, provider reimbursements, acceptable treatments, and most other aspects involving the health care system in Pennsylvania including whether or not a physician group or a hospital could invest in lifesaving technology.
- This 11 member board would be politically appointed and include only three health care professionals: one physician, one nurse, and one pharmacist.
- Revenue for this government-run plan would be generated by a 10% payroll tax on all employers with the unique exclusion of those with union employees who offer a wealthier plan. Apparently, under the bill employers with nonunion employees would not be given this same opportunity.
- Capital BlueCross, with its 2,200 employees, processes over 10 million claims per year. Our employees have had years of training regarding how to review and process claims and we use some of the most sophisticated computer technology available today.
- We also have a staff of physicians on board and access to scores more to evaluate claims. Our physicians meet weekly to go over cases and adjust policy to ensure that we are providing our subscribers with the best care possible.

- Apparently, there are some who believe government can do a better job. However, having held high-level government positions on both the state and federal levels, I lack the confidence of those who believe the Pennsylvania's health care system could be run more efficiently by a state agency.
- In Washington, Congress is debating a bill that would not reduce the cost of health care, but instead significantly increase it. The legislation contains little in the way of efficiencies but instead substantially increases benefits, broadens coverage, restricts rating options, and grants rating approval to the Secretary of HHS.
- What the bill does not contain is a legitimate individual mandate that would permit the spread of new risk across all those insured. The penalty for an individual failing to purchase insurance in 2014 would be \$95 for the year. It increases to \$350 in 2015 and caps out at \$750 in 2016, hardly enough money to make anyone rush out to purchase coverage.
- The combination of a weak individual mandate and a requirement that health insurers accept all individuals, regardless of their use of medical services, leads to an obvious result; people will wait to buy coverage when they need it and drop it when they don't. It's like buying homeowners insurance when you smell smoke.
- Effective health insurance reforms will work only if everyone is required to obtain coverage. The absence of healthier individuals in the insurance pool will drive up rates for people who are insured and will defeat the whole purpose of health care reform.
- The bill also includes an annual \$6.7 billion tax on health insurance companies beginning in 2010 and a 40% excise tax on health insurers for policies valued at \$8,500 per individual and \$23,000 per family. The thresholds would easily be reached in the next few years as the index is tied to the CPI plus one, and not medical inflation.
- The Congressional Budget Office estimates that individual market premiums would increase up to 13% in 2016, the first full year of implementation. Oliver Wyman, Inc., a highly respected actuarial firm, predicts that the typical family without employer-based coverage would experience premium increases ranging from \$3,000 to \$4,000. The report also predicts premiums for young adults could increase by some 50% with the bill now under consideration in Washington.

- In addition to the taxes on health insurance companies, the bill cuts Medicare funding by \$500 billion over ten years while also cutting the Medicare Advantage program by another \$120 billion. Just the possibility of Medicare Advantage cuts has already lead some health insurers to begin eliminating this program that helps seniors navigate the morass of federal rules that govern Medicare along with providing seniors with supplemental insurance coverage.
- Proponents of the Senate bill claim that the program will cost some \$850 billion over ten years. This includes 10 years of taxes but only 6 years of benefit changes. If the Doc fix is included as promised by Speaker Pelosi, the cost goes up another \$250 billion. If you add a partial closing of the Medicare Part D donut hole, the cost goes up another \$250 million leading to a total 10 year cost for this so called reform at over \$1.4 trillion.
- SB 400 offers no better rationale for a single-payer system than the legislation under consideration in Congress. We believe there are a number of changes to the system that can be undertaken to help cut costs. However, instead of focusing on these innovative ideas, the supporters of measures in Washington and SB 400 have chosen to blame the insurance industry, which reflects higher costs. However, they have failed completely to address cost drivers.
- Again, thank you Mr. Chairman for the opportunity to be here today and I would be happy to answer any questions at the appropriate time.