

Overview of written testimony for SB 204
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Senators and distinguished guests, thank you for this opportunity to speak with you today. My name is Charlie Frederickson, a healthcare industry consultant and college professor of business courses. I would like to use my few minutes to give you an overview of my submitted testimony. I realize you were given my testimony in advance and know that you have read it and may have questions. I will be more than happy to answer questions about it shortly. As a consultant I realize that sometimes my role is just as much to educate as it is to advise, as well as to point out future or big picture consequence instead of specifics. Some of those in attendance in the audience today would have trouble explaining the difference between a filibuster and a gut buster. Conversely some of you may not know the difference between a seg height and a PD reading. Also the general public at large doesn't realize that seeing 20/20 does not mean you have healthy eyes, rather it refers to an acuity standard of being able to see a 2 inch letter at 20 feet. Nothing more, nothing less. My goal today is to bridge some of that gap. The direction that the eye care industry is heading is troubling on many levels but many may not be able to see both sides. I have gone into detail of some of these levels in my written testimony. One I'd like to highlight first is the economic impact. Most economists base the exact impact or velocity of a \$1 earned to specific location and environment. However, for the past few years the consensus has been ten – meaning every \$1 spent creates \$10 in commerce. But so not to over exaggerate the amounts, the number I use for our purpose today came from the equation of 'velocity = net gross domestic product over M1 money supply'. Using 2009 4th quarter NGDP and January 2010 M1 this comes to approx 8.63 instead of 10. So for every \$1 spent in the commonwealth it creates \$8.63 in commerce. This amount is created through taxes, purchases at local stores and restaurants, as well as gas, vehicle expense, utilities, etc. And in turn, those persons and products at those stores reinvest their income into other local products/services and so on. This can not happen if the money is removed from the cycle. Conversely every dollar that leaves the commonwealth is \$8.26 in lost commerce. All of the for profit, wholly owned subsidiaries, that the insurance companies are forcing the providers to use, mentioned in the written testimony are headquarter in either Texas, California, Minnesota, or New York – not in PA. Which means these funds are taken from PA, and most, if not all support personnel (or jobs) for those companies are headquartered outside of the Commonwealth as well. Some of these entities have absolutely no operations in PA which drains even more from the PA economy. For instance, the Tribune Review reported in their Sunday February 28th edition, that Davis Vision had revenue of \$492.8 million in 2009. According to public record, Davis is headquartered in New York and most of their support personal and services are in New York and Texas. Taken into account Davis operates in other states and had a small amount of operation in PA, I'll be ultra conservative with an estimate of how much of that almost half a billion dollars was from PA. If just \$125 million of that total had been removed from PA because optometric offices were forced to use Davis, the economic impact to PA is just under \$1.08 Billion in commerce. For Spectera, VSP and others that have no PA operations that number may even be higher. The problem is not just that the monies left PA, but rather **PA companies and workers had zero chance of capturing any of that**

revenue that left the Commonwealth. Because these insurance companies force the independent optometric offices and independent optical offices to use all of the insurance companies wholly owned subsidiaries headquartered outside of PA, ***there was absolutely no opportunity for PA workers of PA based companies to compete.*** This monopolist action by these companies also reduces the available pool from which the independent labs and doctor offices with in-house labs can pull work from, causing some of them directly to go out of business – *not because they could not compete but because they where not allowed to compete.* This in turn indirectly effects many other industries. For instance the office that would have bought a lens edging machine to do lab work in-house, now because they are *not allowed* to do that work in-house, will not purchase that machine. Sales reps, wholesalers of optical equipment and individuals that offer financing for such equipment as well as repair personnel and delivery services could lose their jobs. Let's not forget the sales reps of the lens companies that have their jobs eliminated because the PA owned labs have gone out of business and doctors and opticians are not allowed to do the work in-house. With no competition for the lens product, the lens factories have to produce only what the insurance company owned labs want. There are no incentives to produce new and innovative product as well as no resources for research and development. Recent innovations like wave technologies and digitally advanced lenses may become a thing of the past. Take the phone industry as an example. Do you really think we'd have cell phones today let alone a phone that takes pictures and surfs the web if 'ma bell' had not been forced out of it's monopolistic position? The rapid advancements in telecommunication and wireless devices happen only after competition was allowed in that industry.

I am against artificially creating barriers that present an absolute advantage and/or create a restriction of trade. An insurance company requiring that a practitioner exclusively use the insurance provider's parent company's wholly owned subsidiaries product and/or service in order to be on the panel, it's the equivalent to having a Lowe's gift card; going to any Lowe's store in PA, but only being allowed to buy the Lowe's brand Valspar paint, made in Illinois, instead of the PPG paint made in Pittsburgh or anything else they may carry. This 'requirement' to only use the product/service of the parent company's subsidiaries negates all the inherent checks and balances that our free enterprise system has. Being forced to carry the insurance company's frames and doing all of their patient relations work without being compensated for their expertise and efforts is not fair either. Let's say your district covers three neighborhoods. You need votes from all three to be re-elected (just like most doctors need patients from all three mentioned insurance companies to stay in business) In order to be allowed to campaign and get votes from one of these neighborhoods, the '*community organization*' (aka insurance company) tells you there are some basic requirements you must fulfill. First your local senate office (optical office) for which you pay staff, rent, and utilities must take 25% of your space to have a display rack promoting the '*community organization's*' fliers and activities free of charge to the *organization*. Second it's up to your paid staff to receive the shipment of 'free fliers' (frames) and make sure the display is filled. Third, your employee while being paid by you must field phone calls and spend unlimited amount of time with walk-ins about the *organization's* activities and send out e-mail reminders or phone calls to those individuals (patients) who asked about the *organization's* activities. If you don't do all of these things you are in violation of the 'agreement' and no longer able to solicit votes from that neighborhood. Sound fair to you?? Throw in that any materials you want printed (glasses made) with

important information for your constituents of that neighborhood, **have to use** the print shop (lens lab) that the *organization* owns in Ohio, Maryland or New York instead of one you feel could do a better job and employs local voters – and I bet you can't wait to sign on! But you may have no choice ... if you want to get re-elected.

These conglomerates have use 'economics of scale' as a defense. Stating economics of scale controls costs is valid only if you can measure the results. However, it does not justify exclusive use requirements and restriction of trade. Wall-Mart uses economics of scale but competes in the open market, people have a choice. Being that this is healthcare, it's the patients –not stockholders - that are suppose to be first, so is this lower cost of goods beneficial? A) is beneficial monetarily to the patient if the cost savings is passed on to them – which since there is no competition allowed in this closed market and only the company owned lab sets the price, it is impossible to quantify B) is only beneficial medically to the patient if the quality of care is not compromised – again since there is no competition and therefore nothing to compare it to quality wise, it is impossible to answer. But economics of scale can go the opposite way with the law of diminishing returns which may be the reason for charging a fee for a free warranty. Currently several of these captive labs have created additional revenue for themselves at the policy owners' expense. The manufacturers of lenses gives the consumer a one year warranty against scratches. However the parent owned subsidiary lab will not honor this manufacturer's warranty unless the patient has also *purchased* a lab warranty. This is not an extended warranty the patient is purchasing but paying for the warranty that the manufacturer gives for free. SO, even though the manufacturer of the lens says the lens is warranted for one year, the patient is stuck with the scratches because they didn't pay the lab extra to honor the manufacture's warranty. It would be like buying a GE refrigerator from SEARS, it breaks in a week and SEARS saying " ... we know the manufacturer warranty is for six months but you didn't pay us extra to honor that warranty, so sorry you're stuck with a broken refrigerator". Unlike a refrigerator where you can then call GE directly and they will honor the warranty, sending out a repairman, in optical to have the warranty exercised, you have to send the lenses back to the lab that made the glasses - the manufacturer's hands are tied if the lab does not honor it. The doctors and patients having freedom of choice and labs having to *earn* the business (instead of having it handed to them) will cause the conglomerate parent company owned labs to keep operating cost low, quality and service high, while preventing unbridled growth.

So now you may be asking, why aren't all these people who may be affected revolting? The answer is multi fold. Part of the answer is ... they are. They just don't know who to contact. Most of the complaints from patients go directly to the optical practice or opticians shop. Who must then 'fix' the problem, or deal with the complaint as best they can, even though it's not their fault, to prevent negative word of mouth about *their* business. While businesses affected complain to their organizations and expect them to fight the fight on their behalf. Another part is fear. And it may be a larger factor than I first realized. In the past several weeks I've been contacted by numerous patients, companies, doctors and workers whom hoped I would be addressing their issues. None of whom I have never meet before – not sure how they got my name or number or even knew I'd be here today, but that shows the concern. However NOT ONE of them would let me use their name or business name directly for fear that they somehow or some way would be punished by

what one referred to as “the large all powerful insurance companies”. One woman who received a letter highlighting the use of a retail outlet owned by the insurance company, would not let me black out her info and use the letter for fear her health insurance may be canceled. A product distributor was afraid if they spoke out the insurance company owned labs would stop using their product or his company would fire him. And a Doctor had been denied being put on a panel because the insurance company stated there were too many retail locations that accepted the insurance in the area already (all of retail outlets were owned by the same parent company as the insurance), was afraid it would happen again or may be dropped from a panel because of speaking up. Are these fears justified? I’d like to think not, but perception is reality and the reality is that some people/businesses don’t complain because of fear. And some just think they are one person and it doesn’t matter because big business is just going to do what ever it wants anyway. Some don’t realize they are going to be affected until after the fact. And the last reason? Well I’d still like to believe the biggest part of why there is no mass revolt is belief in our government system. The belief that the government is not going to allow this to happen to us, the workers and employers of Pennsylvania. The belief that our government is going to stand up and fight for the rights of the “little guy”. That’s why I’m here. That’s why I took an unpaid day off work to participate in democracy, because I believe in our government and that elected officials want to do what’s right for all. Not just a select few. Senate Bill 204 will not address all the issues I’ve outlined today and in my written testimony – nor should it, there is no catch all – but it is a great start and is a bill that could help both sides of the issue.

So in summary, in my professional business opinion, this bill will actually help *all parties* involved: the small independent doctor or optician; the support industries; the local and state governments; the insurance parent companies; and most importantly the patient. It will prevent the insurance companies and their subsidiaries from falsely over expanding for an artificial demand that they have created causing the law of diminishing returns to kick in which in turn could cause them deficits and layoffs, and could cost the policy holder higher premiums, larger co-pays and/or reduced services. SB 204 allows for free enterprise and the right to gainful employment as guaranteed by our Commonwealth. It helps level the playing field for all businesses involved. It will put product decisions back in the hands of the doctor and patient where it should be. It will **save Pennsylvania jobs** and prevent additional work from involuntarily leaving our Commonwealth. It will prevent millions in potential tax revenue from being forced from our tax bases, and **decrease the billions in loss commerce** currently experienced. *And most importantly*, it will allow for competition of products and services **ensuring that the patient has every opportunity for outstanding healthcare related products/services**.

Written Statement of Testimony on SB 204
Presented to the Senate Banking and Insurance Committee
March 24, 2010 Public Hearing Harrisburg PA

Chairman White, Vice Chair Ward, and members of the Committee Thank you for allowing me to submit this testimony to be entered into the record of this public hearing on SB 204. I am a small business owner and an adjunct professor of business classes. I am not going to speak on clinical care to patients but rather to the business environment and how the patient, the Commonwealth, PA workers and small independent practices are adversely affected in this current environment. First a little bit of my background: I have a BS in Business Administration and an MBA. I studied international management for a summer at Mansfield College, Oxford University, England. I have been a small business owner doing consulting work in Pennsylvania since 1992, involved in the eye care industry since 2000, and I have been teaching business courses at the college level for going on 19 years. Currently the majority of the businesses I work with are optometrists, dentists, and chiropractors. Small business has been the backbone of this economy since the inception of this country. The idea that every person has the chance to make his or her own way is the American Dream. It has well been the charge of our government to protect its citizens' ability to make a living and to prevent large businesses from taking advantage of individuals. That is why from time to time our government has to regulate such areas that in the past it has left alone. Now is one of those times. The onslaught of the insurance industry's monopolistic tendencies and restriction of trade under the guise of 'better care' is alarming and troublesome on many levels.

First the business aspect: The eye care industry is a unique and special situation that must be viewed and treated as such. You cannot say it falls strictly under something like The Sherman Anti-Trust Act, nor can you say "it's healthcare and monopoly laws should not apply". The eye care industry may be the only industry in the nation (and perhaps the world) where you have a distinctive part that is strictly medical – ocular care; a distinctive part that is strictly retail – sunglasses, colored contacts, sports goggles etc; and a part that is a marriage of the two – progressive lenses vs bifocals vs contacts. The goal in healthcare is to provide the best care possible; the goal in retail is to make a profit. In the eye care industry, these lines are blurred and it's a fine line that must be walked, where profits should take a back seat. Making a separate company to handle a particular segment, say a retail entity, does not make it 'OK' to again focus solely on profit. Let me make it clear that in no way shape or form am I against vertical or horizontal integration. Nor do I believe this bill inhibits that. However I am against artificially creating barriers that present an absolute advantage and/or create a restriction of trade. An insurance company requiring that a practitioner exclusively use the insurance provider's parent

company's wholly owned subsidiaries product and/or service in order to be on their panel, in my opinion, equates to a type of business blackmail (It's the equivalent to having a Lowe's gift card; going to any Lowe's store in PA, but only being allowed to buy the Lowe's brand Valspar paint, made in Illinois, instead of the PPG paint made in Pittsburgh). This 'requirement' to only use the product/service of the parent company's subsidiaries negates all the inherent checks and balances that our free enterprise system has. Because there is no competition, there is no incentive by the insurance parent company affiliates to offer a high quality product and/or service at a fair and reasonable price. Because this affiliate company is the only one *allowed* to provide the product and/or service it is by definition, a monopoly. What recourse does the doctor have if the quality, service, or pricing is bad? They can not threaten to use another lab or go somewhere else, that is strictly prohibited by the insurance company. Not accept the insurance? Then the practice loses a patient because the patient goes to a doctor that does accept their insurance. The perception by the patient is they *have* to go to a participating provider. Whether right or wrong, perception is reality and insurance companies have done a tremendous job of marketing so that patients believe they *must* see a doctor on their panel that accepts the insurance. What about the patient? The patient gets mad at the doctor for the delays and mistakes. What recourse does the patient have? Blame it on the doctor (or optician) and go to another doctor? The new doctor also has to send the prescription to the exact same lab owned by the insurance company – no resolve there. Complain to the insurance company? The insurance company may blame it on the doctor too, give the patient some free product to appease them, and perhaps direct the patient to one of the insurance company owned retail stores. *But there is no incentive to fix the problem.* Hence, my tagging it 'monopolistic tendencies and restriction of trade'. For example: If a patient needs glasses and has Spectera coverage (now called Optum Health) and goes to a doctor on Spectera's providing panel, that doctor **must** send that lens job to the Spectera owned lab in Maryland (no choice – no 'ifs' 'ands' 'or' 'buts'). No matter that this practice is in, say State College PA and has a highly reputable, high quality, reasonably priced lab that employs Pennsylvania residents a block down the street. The Doctor **has** to send the lens order (aka 'job') all the way to Maryland. If enough people in State College get Spectera insurance, that local lab *is forced* to close due to lack of work and all of that business and tax revenue is sent out of state. Let's say the patient has Davis Vision, the Doctor is in Pittsburgh, and the patient just wants new lenses in their current frame. Instead of sending that patient across town to a high quality, highly reputable lab with reasonable prices, to have a lens pattern made from the patient's frame right then and there for the new lenses so the patient doesn't have to give up their glasses, that patient does have to give up their frame for a week or longer so the frame can be sent to the Davis lab in New York or all the way across the state to the Davis lab in Philadelphia. This may not be an option for the patient who does not have a viable back up pair and cannot see without their glasses. How about if the patient has selective VSP insurance and lives in West Chester, their Doctor has to send the job to make their lenses all

the way to Ohio to the VSP owned lab, even though there might be a highly reputable, high quality lab with reasonable prices that employs PA residents right next door. If enough people in the West Chester area get this VSP insurance, that local lab will be forced to close and all that work and tax revenue gets sent to Ohio. Think all of this is far fetched? No, in fact PA jobs *have already been lost*. I personally know of a lab that was in Greensburg PA and that lab lost a lot of work to the Davis, VSP and Spectera owned labs. So much so it had to close, putting local residents out of work. Not only were the lab employees out of work but the privately contracted delivery personnel lost work not to mention the lost income to the landlord – 2 years later and the space is still unrented. Let's not forget the local equipment repair person, the lens salesman, all losing work – some going out of state. And what about all the local and state taxes that are not being collected? There's a bigger picture than just one lab closing, you have to consider the entire impact on the state's economy as a whole and all of the support industries. The real crime here is not that the company had to close (because companies have to close everyday) but why they had to close. It was not because their quality was sub par – in fact they had an extremely low return rate. They did not have to close because their prices were too high – they were very competitively priced. They did not have to close because their customer service was bad – it was top notch. They did not close because they could not compete but rather they *were forced* to close because **THEY WERE NOT ALLOWED TO COMPETE!** Pennsylvania residents doing an excellent job at a reasonable price lost their jobs because they were not allowed to compete. Had they been in any other industry that doesn't have these artificial barriers set by a few companies for the sole benefit of their subsidiaries, this company may have continued to thrive and probably grown, maybe hiring more Pennsylvania workers. Instead most of this work left the Commonwealth going to Maryland, New York and Ohio, and what amount *may* have stayed in PA at the Philadelphia Davis Lab only went to benefit the bottom line of the New York based and headquartered, Davis Vision Eyecare Advantage. Who knows, some of those Philadelphia employees may even live in New Jersey.

One argument I have heard by these conglomerate owned subsidiaries companies is that because of the economics of scale they could lower the cost of goods offering better care less expensively. Although the statement 'economics of scale can lower cost of goods' from a business stand point is true, it does not justify the restriction of trade and exclusive use. Wal-Mart uses this 'economics of scale' philosophy but still competes in the open market GIVING PEOPLE A CHOICE. If you truly believe you have a competitive advantage based on price and can offer better care for less, then you want competition, so work from all insurance companies and private pay individuals can come to your lab. Being that this is healthcare, it is the patients –not stockholders - that are supposed to be first, so is this lower cost of goods beneficial? A) This only is beneficial monetarily to the patient if the cost savings is passed on to them – which since there is no competition allowed in this closed market and only the company owned lab sets the price, it is impossible to quantify B) This is only

beneficial medically to the patient if the quality of care is not compromised – again since there is no competition and therefore nothing to compare it to quality wise, it is impossible to answer.

Let's turn our attention from lab to frame. If it were not bad enough that the independent small businesses whom accept certain insurances are forced to send their lab work to only one lab that is owned by that same parent company, these same business owners are forced to carry and maintain product for which they receive no income. As part of the requirement to be on the panel, some insurance companies require that you carry *their* frames. They send you their frames "free of charge" to you. However they cost the office money via 'time & expense'. First you *must* display these frames, which means you must take valuable space from the optical (reducing how much you buy – hurting the independent frame rep – perhaps eliminating a rep. If enough locations do that, it will cost PA more jobs), and instead of offering frames you can make money on, you have to have the insurance company's frames on display. Most of the insurance company's frames come with its own product display case, so you must also find space for that. You must pay your staffer to check in, stock, maintain, display and show these frames to individuals that have that particular insurance and for doing all of this on behalf of the insurance company totally at your expense, no charge to the insurance company, you get zero compensation; however you do get the privilege of telling people you accept that insurance. Not only don't you get a penny, you don't even get an 'at-a-boy' [This would be like Heinz telling Giant Eagle they are sending Giant Eagle this special product – Giant Eagle must pay their stock people to put it on the shelf and maintain it even if it means they must take something off their shelf that they can sell and actually make money on. Heinz is going to send all these people (aka patients) who are registered (have this insurance) with Heinz program to the Giant Eagle store with a coupon (benefit package) saying the patron gets this Heinz product (frame) for free but the patron must check out like normal so Giant Eagle must pay their check out clerk to ring the patron (patient) up and check them out so Heinz can keep track of the product. If Giant Eagle doesn't do this then Heinz is going to send all of these 'patrons' to another grocery store that does accept it, depriving Giant Eagle the opportunity to service them in other areas]. Now, if after the optical's paid employee spends time showing the patient the insurance company owned frames and helping that patient pick the proper frame using the employee's skill, training, and expertise (that the business owner paid for the employee to have) this patient benefit package might say that patient pays zero extra dollars for that frame. So your paid employee must again use their skill set to properly measure the frame to the patient's face and send this technical information using the computer system, phone and/or internet connection that the small business owner has paid for, to the insurance's parent company owned lab. Then this employee is paid to package and send the frame to the insurance company owned lab. The employee is also responsible for tracking this shipment and making sure it gets there and back to the optical. Once it is received back at the office, this employee spends more time checking to

make sure the prescription is correct and the materials used where as ordered. When they are not, the employee repackages, contacts the lab and resends the frames to do it all over again. When product finally does arrive made correctly, using the small business person's assets of phone internet etc, this employee contacts the patient to tell them their glasses have arrived and set up a time for the patient to come in and pick up the glasses. Once the patient arrives, a paid employee spends even more time with the patient custom fitting the frame to the patient's face and trying to adjust what sometimes is an inferior quality frame so the patient can see properly and is comfortable. The patient is then checked out – sometimes with the office collecting no funds from the patient and when the office has to collect co-pays the patient is upset at the office staff because they have to pay all of that insurance premium and still have to pay at the doctor's office. (What the patient doesn't realize is sometimes the doctor doesn't even get to keep those fees. They are charged back by the insurance company's lab for any extras that the patient might have gotten, and the lab tells the office what price they can offer for those extras, building in almost no margin for the office.) For all of this time and expertise that the small business owner must pay for to provide this top quality service for days (sometimes weeks) on behalf of the insurance company, the office receives a 'dispensing fee' ranging from \$7-\$15 from the insurance company. Of course the insurance company believes this is a great deal, they collect a hefty premium from the policy holder and their policy holder receives all of this great service and expertise and highly technical environment at basically no cost to the insurance company (padding their wholly owned, based outside of PA, subsidiary's profits) and if the insurance company owned lab screws up, it's the office staff that has to deal with the angry patient, handle the grief, and spend more time and money to fix the problem. With the restrictive monopolistic one sided 'agreement' with the practice (or optical shop), there is no way for the practice to recoup any of their cost. If this action continues and these types of insurance policies continue to grow – the small independent offices and all support personnel and support service will be *forced* out of business. Let me see if I can relate all of this to you another way ... Your district covers three neighborhoods. You need votes from all three to be reelected (just like most doctors need patients from all three mentioned insurance companies to stay in business) In order to be allowed to campaign and get votes from one of these neighborhoods, the '*community organization*' (aka insurance company) tells you there are some basic requirements you must fulfill. First your local senate office (optical office) for which you pay staff, rent, and utilities must take 25% of your space to have a display rack promoting the '*community organization's*' fliers and activities, free of charge to the *organization*,. Second it's up to your paid staff to received the shipment of 'free fliers' (frames) and make sure the display is filled. Third your employee, while being paid by you must field phone calls and spend unlimited amount of time with walk-ins about the *organization's* activities and send out e-mail reminders or phone calls to those individuals (patients) who asked about the *organization's* activities. If you don't do these things you are in violation of the 'agreement' and no longer able to solicit votes from

that neighborhood. Sound fair to you?? Great for the *organization* though isn't it? Saves them lots of cost, because they get free labor and don't have to pay any rent, or phone bill. Throw in that any materials you want printed (glasses made) with important information for your constituents of that neighborhood, you **have to use** the print shop (lens lab) that the *organization* owns in Ohio, Maryland or New York instead of one you feel could do a better job and employs local voters – and I bet you can't wait to sign on! But hey you don't have to sign on, you can win re-election without those neighborhoods, right? The insurance companies claim the doctors don't have to sign on, they can stay in business without patients, right?

The third problem I see from a business stand point with this unregulated integration is a violation of at least the spirit of HIPAA. HIPAA is supposed to protect the privacy of the patient. However, the insurance company knows exactly who has their insurance, when that patient will be due for an exam and what products the patient got at their last exam. The insurance company can then send out a notice to *all* of their members right before that member patient's due date telling them of 'special offers' at the 'following locations' but does not have to reveal that those 'locations' are also a wholly owned subsidiary of their parent company. They can then coordinate this offer by their retail outlet with their exclusive lab. (Again this has already occurred) The insurance company has not directly violated HIPAA regulations because they have not directly provided that info to their 'sister' retail outlet store (and their parent company owned lab already has the info). **But** the company owned subsidiary retail store gets an unfair advantage because the insurance company 'promotes' only these retail stores exclusively to the **entire** group of policyholders in a particular area. Since the parent conglomerate owns the frame company as well, the retail outlet can also offer policyholders products not made available to private practices; or exclusively available at company owned stores. (This has already occurred). The only patients to whom the small business can market is the individuals that are actual current patients of that practice. Because of HIPAA, the private practices do not have access to all policyholders in their area. (How would you feel if your next opponent in the up coming election not only knew who was going to vote, but when & where they were going to vote? Is that a fair playing field?) While I do not believe this bill would address this issue, it may help to limit or reduce the exchange of information among all of the subsidiary companies since the parent company would not control all aspects. However, this issue should be looked at by the legislators in the near future as well as what the criteria is to be on an insurance panel. There are no uniform standards for all insurance panels either. A doctor may be refused admittance to be a provider practice based solely on the fact that that the insurance company feels that there are too many providers in an area ... too many providers?? What happened to freedom of choice for the patient? So if an insurance provider has a retail outlet in the area they can deny new doctors from participating.

Ironically this bill, which these companies who want exclusive rights are opposing, could in the long run, help them. In economics we have something called “ The Law of Diminishing Returns”. Which means you only benefit by ‘economics of scale’ to a certain point at which time you grow too big and your size becomes a detriment. Growing bigger has diminishing returns, and you become top heavy with too many layers and uncontrollable size, and cost to run the operation is greater than the profit from the operation. Case in point – Sam’s Club recently having to close some stores because they over expanded. These parent companies wanting to own all aspects of the eye care field and force the patient and doctor to only use entities they own will cause them to grow exponential and at some point adversely affect the patient with either higher premiums, larger co-pays or reduced choices of products and/or services. This in fact may already be occurring. Currently several of these captive labs have created additional revenue for themselves at the policy owners’ expense. The manufacturer of lenses gives the consumer a one year warranty against scratches. However, the parent owned subsidiary lab will not honor this manufacturer’s warranty unless the patient has also **purchased** a lab warranty. This is not an extended warranty the patient is purchasing but double paying for the warranty that the manufacture gives for free. SO, even though the manufacturer of the lens says the lens is warranted for one year, the patient is stuck with the scratches because they didn’t pay the lab extra for the lab warranty – which is just a payment to have the lab honor the manufacturer’s warranty. It would be like buying a GE refrigerator from SEARS, it breaks in a week and SEARS saying “ ... we know the manufacturer warranty is for six months but you didn’t pay us extra to honor that warranty, so sorry you’re stuck with a broken refrigerator”. Unlike a refrigerator where you can then call GE directly and they will honor the warranty, sending out a repairman, in optical goods, to have the warranty exercised, you have to send the lenses back to the lab that made the glasses. If that lab refuses to honor it, there are not many options - the manufacturer’s hands are tied. If the manufacturer tells the lab ‘Hey you have to honor our warranty’ ... or what? What recourse does the manufacturer have? If the lab stops using the manufacturer’s lenses and since the ‘customer’ (patient) is locked into that lab via the insurance, the manufacturer losses that business. So the likelihood that a manufacture of any lens or coating would come out and support this bill is unlikely for fear of loosing future business. Some lab associations have Davis, Spectera, and VSP labs as members so it may be a conflict of interest for them to comment on this subject. Because there is no competition, not only are the doctors’ hands tied, but so are the manufacturers and industry professional societies - and who has to pay? Both figuratively and literally, it’s the patient! Having freedom of choice and having to *earn* the business (instead of having it handed to them) will cause the insurance parent company owned labs to keep operating cost low, quality and service high, while preventing unbridled growth.

What about the Commonwealth? How many millions in tax revenue is lost? I have already talked about a lab that closed. What about the small frame company? Some of them have closed as well. I know of a former PA resident that was a lens Rep that could not meet the manufactures required quota selling to local labs because the labs were forced to lose jobs to insurance company owned labs. He now works in Ohio, and as far as I know, the lens company has not replace him. I heard of another PA resident who was in sales of lens cutting equipment who sold to labs and private offices. But now what use to be done in-house by some offices, is forced to go to the insurance company owned lab. Last I heard he was in North Carolina. Not only is our Commonwealth losing income tax on all the lost wages by independent reps and repair personnel, but lost income tax on the people who are forced out of work. But worst of all is the millions of dollars in business income that *is forced* to go out of state. Revenue that PA businesses *never* had an opportunity to *compete* for. Most insurance companies may be non-profit – tax exempt, but the labs, frame companies, and support centers are not. **None** of these for profit wholly owned subsidiaries I talk about in the above text are head quartered in Pennsylvania. Under United Health Group umbrella; Spectera aka crown labs owned by optum health – headquarters .. Minnesota: Under Highmark umbrella; Davis Vision Inc aka Davis Vison Eyecare, advantage empire vision center inc, Viva International Group – headquarters .. New York, & Eye Care Centers of America (vision works) – headquarters .. Texas: Under VSP umbrella; VSP labs, Altair frames – headquarters .. California.. Meaning that the bulk of their taxes are paid in **those** states. The bulk of their support personal is employed in those states. I don't see Pennsylvania on that list. Because these restrictive programs do not allow Pennsylvania business to compete, all of that potential tax revenue, and jobs are lost. This bill could save some of them.

So in summary, in my professional business opinion, this bill will actually help *all parties* involved: the small independent doctor or optician; the support industries; the local and state governments; the insurance parent companies; and most importantly the patient. It will prevent the insurance companies and their subsidiaries from falsely over expanding for an artificial demand that they have created causing the law of diminishing returns to kick in which in turn could cause them deficits and layoffs, and could cost the policy holder higher premiums, larger co-pays and/or reduced services. SB 204 allows for free enterprise and the right to gainful employment as guaranteed by our Commonwealth. It helps level the playing field for all businesses involved. It will put product decisions back in the hands of the doctor and patient where it should be. It will **save Pennsylvania jobs** and prevent additional work from involuntarily leaving our Commonwealth, it will prevent millions in potential tax revenue from being forced from our tax bases, and **decrease the billions in loss commerce** currently experienced. *And most importantly,* it will allow for competition of products and services **ensuring that the patient has every opportunity for outstanding healthcare related products/services.**