



Testimony

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Offered by

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Chairman DeLuca, Chairman Micozzie, other members of the Committee, good morning and thank you for convening this hearing. My name is Gary Swan and I am offering testimony on behalf of Pennsylvania Farm Bureau, the state's largest general farm organization, which is comprised of a voluntary membership of more than 40,000 member families. In association primarily with Capital BlueCross, our group health insurance plans provide coverage for more than 19,000 lives throughout the Commonwealth. Our Health Services Division handles all administration, service to subscribers, sales and billing for the group plans that serve our diverse membership. We have provided health coverage for our farm family members for 30 years. The primary functions performed by our carrier are underwriting and the payment of claims.

On April 8, 2003, several hundred farmers stood on the steps at the Capitol Rotunda – just a short distance from here – to express the urgent need to address the soaring cost of health care and health insurance. They described those dilemmas as a priority concern for farm families. That speaks volumes since farmers are typically confronted by so many other difficult problems.

Governor Rendell and his Administration are to be commended for advancing an ambitious agenda of reforms through the “Prescription For Pennsylvania” proposal. We believe it will accelerate the process of deliberation and decision for relief which is long overdue.

Farm Bureau arrives at our position on issues through an annual and extensive grassroots process of policy development. I will not be able to comment on some facets of the Governor's proposal because we do not have existing policy. However, there are many provisions for which we have a policy position. Let me begin with those areas.

The Governor proposes adoption of an adjusted community rating methodology to determine health insurance rates. Farm Bureau members adopted policy in 2005 supporting community rating as a preferred alternative to the current method of demographic rating. Community rating – even in a modified form still using certain demographic factors – spreads the risk more evenly among all insured, and reduces the potential for rate-shock. Allow me to share a real world illustration.

The health plans for a portion of Farm Bureau's insured population will renew on April 1st with a median rate increase of 7.4 percent for the next 12 months. Five percent of those subscribers, however, will experience a rate increase of between 40 and 78 percent. Our Health Services professionals indicate that such rate-shock is mostly due to demographic rating. A subscriber, for example, is a year older and moves into a higher age bracket.

An adjusted community rating methodology also reduces the potential for unfair hiring practices where age might be given more consideration than what is appropriate, either legally or professionally.

The Governor proposes the formation of a commission to explore and determine criteria for adding, merging or eliminating health care facilities among regions. Presumably the intent is to prevent or reduce the costly development of health care facilities where the need is not clearly established. Farm Bureau strongly supports that concept with policy recommending implementation of a “Certificate of Need” program, improving upon what previously existed in Pennsylvania. Farm Bureau policy goes so far as to recommend that unnecessary duplication of health services should not receive government funding.

The “Prescription For Pennsylvania” plan would enable various health care professionals to perform a larger array of health care procedures within the scope of their training and skills. Similarly, Pennsylvania Farm Bureau policy recommends “the development of health care teams, comprised of nurse practitioners, physician assistants, midwives and other physician extenders.”

The Governor’s program would provide the State Insurance Department more authority and responsibility for oversight of insurance providers and the review of insurance rates.

Let me note that Pennsylvania Farm Bureau enjoys a productive working relationship with insurance carriers. Our partnering arrangement primarily with one insurance provider has benefited thousands upon thousands of farm families over the past three decades. Insurance companies are frequently the main target of criticism and concern about insurance costs. Farm Bureau notes that in many respects, however, insurance companies are merely the deliverer of bad news when it comes to soaring insurance premiums. The predicaments we face with health care and health insurance costs are a shared responsibility among all segments of our health care system, including all Pennsylvanians. Some reforms affecting insurance companies, however, are needed and justified.

Farm Bureau policy recommends that the State Insurance Department be given greater authority to:

- 1) Expand their review and oversight of proposed health insurance premium rate increases;
- 2) Regulate the reserves of premium revenues; and
- 3) Review and reasonably limit administrative fees.

Governor Rendell proposes the creation of a standard insurance plan called “Cover All Pennsylvanians” to make affordable coverage more available. It’s unclear what would comprise the benefit package, but we assume it would be comprehensive. For several years, Farm Bureau has urged that a basic health plan be authorized by law – one which might not be as comprehensive as the plan envisioned by the Governor – but one that would at least cover the more serious and costly health care situations.

The Governor's proposal documents that the health care workforce in Pennsylvania is disproportionately distributed to the population. For example, in urban counties, there are 2.35 physicians per 1,000 residents, while in rural areas there are 1.37 physicians per 1,000 residents. This has been a longstanding concern of Farm Bureau. Our policy recommends that incentives be given for the delivery of medical and mental health services in rural areas, including financial incentives to Pennsylvania medical students who are training to become family practitioners, general surgeons, or other primary care physicians, who intend to practice in rural Pennsylvania.

Perhaps the most far-reaching and contentious part of the Governor's proposal are the provisions requiring that employers be assessed a percentage of their payroll if they do not offer health coverage. Farm Bureau members have not developed a policy position on that specific issue. It's uncertain whether our State Board of Directors will discuss and adopt interim policy – a practice they generally resist because of the grassroots nature of our organization. Additionally, we are in the process of getting answers from the Rendell Administration to several related questions.

However, there are some general thoughts that I can offer today. First, farmers are highly motivated to provide the best benefits possible for employees. It is not uncommon for farmers to provide housing for a key employee. Acquiring skilled and reliable labor is one of the most difficult challenges confronting agriculture. What farmers offer in wages and benefits is limited by the nature of farming. Farmers are price-takers – not price-makers. For the most part, they do not determine what they receive for the food and other commodities they produce. Using the dairy industry as an example – and Pennsylvania has the nation's fifth largest dairy industry – the price farmers receive for their milk is determined by government. Consequently, there are actual and practical limits as to what a typical farmer can offer or pay so far as employee benefits.

Considering the "Prescription For Pennsylvania" proposal overall, Pennsylvania Farm Bureau respectfully asks the Rendell Administration and the General Assembly to practice the Hypocratic Oath. Namely, please do no harm to the current or future viability of association health plans.

For example, if changes in laws or regulations were to prevent Pennsylvania Farm Bureau's group health program from having access to the health plans or benefits resulting from the reform, our members would be forced to forfeit an important option for their health coverage. In fact, we believe that comprehensive health care and health insurance reform for Pennsylvania should include additional components that provide more empowerment to association health plans and that address existing obstacles to the plans.

It's no secret that some insurance carriers are less than enthusiastic about association health plans. That view is justified to a certain extent. The fact is that not all association health plans are created and

administered equally. There is a history of some not paying adequate attention to robust underwriting and quality service to subscribers.

On the other side of the ledger, however, organizations like Pennsylvania Farm Bureau have a fortunate history of delivering health coverage – while progressively partnering with our insurance carrier – which is affordable, reliable and uniquely designed for the needs of a particular constituency. While our subscribers have experienced some of the same rate shocks as everyone else over the past several years, we have achieved a good amount of insurance premium stability over time. For example, although our senior subscribers – primarily retired farmers – are experiencing a substantial rate increase this year, there was no rate increase for them in the years 2004 and 2005. And for 2006, they actually received a two percent rate decrease. Association health plans are vitally important to many Pennsylvanians and should not be subjected to unintended consequences after reforms are enacted.

Respecting the limited focus of this hearing, I will not elaborate upon what can be done to make association health plans an essential part of the solution. I am including additional comments related to association health plans as an appendix to this testimony. Pennsylvania Farm Bureau would welcome opportunities to offer other recommendations as your deliberations continue.

I will close on two final notes.

The Governor's proposal outlines several measures that can be taken to potentially reduce the costs of health care and health insurance. Cost reduction is an absolute imperative. Otherwise, reforms will not produce a sufficient outcome. The health care cost burden must be shared, not merely shifted.

Many other means of cost savings should be added to the final remedies, including tort reform. As you know, defensive medicine is a major cost driver.

The Pennsylvania Farm Bureau believes that cost-savings measures should be implemented and given a chance to wring excessive and unwarranted costs out of the system. One of our concerns relates to human nature. There is less motivation to gain efficiencies and cut costs if one knows that a massive amount of new cash is about to be infused into the system.

Lastly, we respectfully ask that monies held by insurance companies not be tapped by government for other programs. Those funds belong to the health insurance subscribers. Those who struggle and sacrifice to pay the health insurance premiums for their families and employees expect any accumulated surplus to be used to reduce or stabilize their future insurance bills.

Thank you for this opportunity to share the views and experience of the Pennsylvania Farm Bureau. We know it is a very difficult and complex matter. Yet the farm families of Pennsylvania who we represent are counting on all of us to make health insurance and health care reform a sustained priority so that relief can be achieved very soon. I will welcome any questions at this time.

APPENDIX

Pennsylvania Farm Bureau Recommended Reforms To Bolster the Work of Association Health Plans

Pennsylvania lags behind many other states so far as creating an environment where association health plans can help improve the affordability and availability of health coverage. Attention to this area should be part of comprehensive health care and health insurance reform for the Commonwealth.

During the last term of the General Assembly, legislation (H. R. 2331) was introduced which contained many provisions that would significantly advance the work of association health plans. Pennsylvania Farm Bureau urges the Rendell Administration and the General Assembly to include an “Association Health Plan Initiative” (hereafter referred to as the “Initiative”) as part of comprehensive reform.

The Initiative would require insurers that offer group health insurance policies to members of a professional or trade association to base the premiums for association members upon the actual claims and administration expense for their group. Stated more simply, it would enable association groups the possibility of acquiring and offering health insurance at rates lower than what exists in the customary marketplace, depending upon a number of factors.

Equally important, the Initiative would enable associations to serve their members on a statewide basis by developing group health plans with multiple carriers for similar benefits and potential advantages. All would operate under the same rules and it would provide more certainty so far as an association’s future ability to offer and provide quality health care coverage at the lowest cost possible.

Pennsylvania Farm Bureau’s group health insurance program already benefits from an experience-rated arrangement. Thanks to the cooperative spirit of Capital BlueCross in partnering with Farm Bureau, we are able to offer health plans under an experience-rated arrangement throughout their 21-county region. In addition, Highmark Blue Cross/Blue Shield and Blue Cross of Northeastern Pennsylvania have voluntarily allowed Capital BlueCross to function as a so-called “control plan” within their own coverage territories for Farm Bureau’s group health care insurance. It means that we are able to provide our farm families with coverage in 41 additional counties. We are able to provide administration and customer service from a central location. That means efficiency with reduced costs.

On the other hand, Farm Bureau has been unable to achieve a similar arrangement with a “Blues” organization in another region. In those counties, our farm family members pay significantly more for their health insurance and they do not enjoy other benefits and advantages that come from our group health program.

All of these arrangements are voluntary on the part of the respective insurance carriers. Even though these are win-win alliances for all involved, there is that element of uncertainty about the future. A decision by one or more of the cooperating insurance providers to withdraw from the arrangement – for whatever reason – would be a cataclysmic event for the farm families of the Commonwealth, who rely upon Pennsylvania Farm Bureau for their health care coverage. And our contracts are year-to-year.

Experience rating of association plans is beneficial for other several reasons. First, it creates financial incentives (the goal of lower premiums) for the association to aggressively manage its program because better experience will directly lead to lower insurance rates. Under experience-rated arrangements it makes sense for associations to invest in such efforts as educating members on using the health plan

wisely, promoting wellness and participation in disease management programs, sharing provider quality information and actively auditing groups to ensure compliance with plan participation rules.

In arrangements where associations are merely part of large community-rated groups, the association may never see a return on such investments since its experience is commingled with the experience of a much broader risk pool. As a result, associations or its member subscribers are less motivated to invest in activity that can lead to lower premiums over time.

Also under experience-rating approaches, associations are typically given more flexibility to design products to meet cost and benefit needs of their membership. Such product flexibility also helps to lower association member costs. In community-rated environments, the insurers typically offer all small groups the same, standard product plans regardless of whether they purchase direct, through a broker or through an association.

Improvements in law to better accommodate association health plans should provide for an adequate minimum enrollment threshold in order for an association to be fully experience-rated, because the experience of smaller association groups may not be fully credible so far as underwriting and actuarial factors. These arrangements must meet actuarial and underwriting standards of the insurance industry if they are to be successful both for carriers and associations. In many other states where a similar law exists, qualified associations are required to have a certain level of membership – and the number is customarily not in the range of hundreds, but rather in the range of thousands.

Reforms should include provision to address a longstanding issue so far as how certain dollars are allocated to insurance carriers in relationships with association groups.

As part of every such arrangement, the insurance provider negotiates and establishes a percentage of the premium that pays for their administrative costs associated with the health care plans. Those charges are commonly known as the carrier's "retention". None of those dollars goes to pay claims. The amount – as a percentage of the premium of every plan – should be based on their actual costs of delivering the coverage to the association's subscribers. That charge to the association group health plans is fair and necessary, if negotiated within industry standards with adequate oversight by the Insurance Department.

Here's the problem: On top of whatever "retention" is decided and negotiated with an association group, the actual amount of their fee for administration is automatically escalated by the overall percentage of an annual health plan rate increase. As an illustration, suppose that the agreed upon "retention" for a carrier is \$4 million for the work they do to administer and offer an association's group of health plans. Suppose there is a rate increase of 12 percent – again, an amount not uncommon in today's world of escalating health insurance costs. Because the percent increase applies to the entire insurance rate – which includes the administrative costs – the carrier automatically receives a windfall that is not warranted by any additional cost to their operation. In this example, it means that on top of the \$4,000,000 that was agreed upon for administrative charges, the carrier receives an additional \$480,000.

Administrative charges should be based on actual costs and not be automatically inflated by way of overall rate increases.