BEFORE THE PENNSYLVANIA HOUSE
INSURANCE COMMITTEE

Testimony of

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Thank you for the opportunity to testify. My name is Titus North and I am the deputy executive director of Citizen Power, a regional consumer and environmental advocacy organization headquartered in Pittsburgh. As part of our mission we work toward the establishment of a single-payer healthcare system that will provide affordable healthcare to every American.

The dust is only just starting to settle following the battle that resulted in the passage of the Patient Protection and Affordable Care Act last March, and people across the state and around the nation are wondering just how this massive piece of legislation will actually play out. It is our view that the much touted "reform" will disappoint those who supported it in the hopes that it would extend affordable healthcare to the bulk of those who currently lack it. Our view is based on the fact that for-profit health insurance companies and so-called non-profits that are becoming increasingly indistinguishable from the stock-issuing counterparts will be left in control of allocating health care and that the regulatory measures included in the Act will be insufficient to prevent a continuation of the decades-long trend of health insurance premiums, co-pays, and deductables far outstripping underlying inflation or growth in wages.

As an example, I would like to point to one of the key provisions of the Act, namely the stipulation that "non-profit BCBS organizations have a medical loss ratio of 85 percent or higher in order to take advantage of the special tax benefits."[1] This provision is apparently limited to only the non-profit sector of the insurance industry, and even then it is a weak goal. The loss ratio of Medicare is perennially around 97%, meaning that only 3% of their revenues are not going towards paying for health care services. Morever, according to PricewaterhouseCoopers, as recently as 1993 health insurance companies were maintaining loss ratios of around 95%.[2]

However, since that time we have been seeing rapid rises in health insurance premiums, far outstripping inflation due to increased overhead costs. Even the so-called non-profit insurers pumped huge amounts of money into advertizing, sales commissions, and executive compensation. Some of the Blues renounced their non-profit status and joined the for-profit health insurers in chasing ever-higher returns for shareholders. Meanwhile, the industry's loss ratio fell steadily, reaching 81% in 2009, according to PricewaterhouseCoopers. The situation in Pennsylvania may well be worse.

Since 2008 the Pennsylvania Insurance Department has been making approved rate and other insurance filings available to the public over the internet via the SERFF system. During the 28-month period of January 2008 through April 2010, there were 1579 rate filings approved by

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[1] Section 9016 of the Patient Protection and Affordable Care Act (http://dpc.senate.gov/healthreformbill/healthbill05.pdf).

[2] PricewaterhouseCoopers, "Beyond the sound bite: Review of presidential candidates' proposals for health reform," 2008, quoted in the Main Street Alliance (http://mainstreetalliance.org/wordpress/wp-content/uploads/Ensuring-Value-for-Premiums.pdf).

the Insurance Department for various health insurance products. These filings are typically dozens, and often hundreds of pages long. They are full of rate tables and actuarial data. One wonders to what extent these rate hike requests can actually be examined in depth. While some of the filings make reference to loss ratio (and they are frequently well under 81%), the main focus seems to be on the underlying trend factor (i.e. the increased cost of medical providers, the cost of new and expensive medical technology, etc.) faced by the plans.

Still, as far as can be discerned from this publicly available data, the companies are not providing adequate backing for their claims of increasing costs. This raises the question of their potentially using creative accounting to game the system. After all, if their premium hikes were merely keeping pace with their costs, their loss ratios would have remained stagnant and we would not have seen the huge decline described by PricewaterhouseCoopers. The saturation advertising engaged in by the companies, the spiraling executive compensation packages, the bloated reserve funds of the non-profits, and the fact that the shares of the for-profit insurers are among the favorites of Wall Street investment banks makes it clear that a substantial portion of the perennial rate increases are not going to cover rising costs of paying for benefits, but rather are going towards activities that are of no benefit to the policy holder.

Ultimately, the responsibility for the success of the Insurance Department's regulatory mission lies with Pennsylvania's elected officials. You need to determine just where the problem is. Is it that the Insurance Department lacks the resources to take on the well-financed actuarial divisions of the multitude of health insurance companies that submit filings in Pennsylvania each year? Is it that the Assembly has not provided enough legal authority to the Insurance Department or that they have undermined their mission by restricting it primarily to the individual market? Is it that the Pennsylvania political leadership is overemphasizing the Department's role in maintaining the fiscal health of the insurance companies while underemphasizing its role in protecting the public interest?

The point is that the current trend is unsustainable. Medical bankruptcies already account for half of personal bankruptcies in this country.[3] With unemployment at its highest level in decades and so many people under water in their mortgages, there is no longer any slack in the household finances of so many Pennsylvanians. Each additional rate hike can only result in an increase in the already record number of uninsured people. While the Patient Protection and Affordable Care Act is being touted as landmark legislation that will dramatically reduce the rolls of the uninsured, this prediction is premised on people being able to afford to purchase insurance from existing companies in exchanges regulated by the states. However, the current state of affairs in which the Insurance Department is unable to rein in premium hikes to a manageable level does not bode well for this prediction.

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[3]MSNBC.com: "Medical bills make up half of bankruptcies" (http://www.msnbc.msn.com/id/6895896).

For the Committee the questions is: what can be done to improve the situation? It is my understanding that the Patient Protection and Affordable Care Act allows states to establish more stringent loss ratio standards than those set by the federal government. It seems to me that it would be in the interest of Pennsylvanians if the state did so and provided the Insurance Department with the regulatory resources, the legislative authority, and the political direction to see to it that insurance companies not be allowed to continue to game the system to the detriment of policy holders. While I fear that that Patient Protection and Affordable Care Act will prove to be insufficient to keep Americans from sinking in a rising tide of health insurance rate hikes, the Assembly can take action to throw Pennsylvania consumers a life raft until the time when Congress rectifies the mistakes it made in the recent health care battle. Thank you