



Pennsylvania Association of Health Underwriters

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October 6, 2014

TO: Honorable Paul Clymer and Honorable James Roebuck

Members of the House Education Committee

FR: Vince Phillips

Pennsylvania Association of Health Underwriters

I respectfully request that this letter be included as part of the formal record of the House Education Committee hearing on Financial Literacy.

The Pennsylvania Association of Health Underwriters (PAHU), an association of insurance professionals specializing in health insurance and employee benefits, applauds the Education Committee's recognition of the need for more educational efforts devoted to increasing the public's and students' knowledge and use of financial components of our society today.

However, PAHU's concern is a long-standing belief that Financial Literacy education undertaken by the Banking & Securities Department or through the Education Department overlooks insurance literacy. Insurance pervades a person's function in our society. Insurance is required by law in some cases -- automobile insurance, Workers' Compensation, medical malpractice for health care providers and the 2014 requirements that large employers offer health insurance to full-time workers under the Patient Protection Affordable Care Act (PPACA).

Sadly, most people do not understand how insurance works. A few examples:

- **The law of large numbers:** In order for insurance to work, the risk (chances of having a claim) must be spread over a larger number in order to make the system financially able to pay claims. That is an underlying basis for PPACA -- benefits are tremendously expanded but the new system will only sustain itself if enough people with fewer claims are required to pay for those who have more claims.

- **Adverse selection:** This occurs when a person decides to buy insurance because they have a pretty good idea that they will have a claim. An example is someone wanting dental insurance because he or she is already en route to a dentist's office. Another is the concept of presumptive eligibility where children would be deemed eligible for CHIP when they show up in the emergency room.
- **Cost-shifting:** Someone has to pay the bill. A health care provider that does not receive adequate reimbursement from the government will have to find another way to absorb those costs. That issue was at the core of the Medicaid expansion issue in PA and other states. Cost-shifting means that the cost is shifted to whoever can pay whether it is through self-insurance or the insured patient.
- **Cost drives the system.** As an example, the new federal PPACA tax of 3.2% of gross income by manufacturers of durable medical devices is not particularly visible but it does not just go away. It gets passed on to the purchasers -- the patient, the insurance company, and the taxpayers if purchases are made under Medicare or Medicaid. The impact of this tax prompted both PA Senators Casey and Toomey to sign on to an amendment to a budget bill to void this tax because of the device manufacturers having to re-trench by cutting staff or moving jobs elsewhere..
- **Transparency:** Until recently, with the increase in the numbers of high deductible plans, many workers thought that the co-pay at the doctor's office was the actual cost of care instead of the price they paid. Translation: The employer picked up the balance of the cost. With the newer higher deductible plans, the employee pays more up front and has a consumerism incentive to shop around for the best, least costly, care.

These examples illustrate the basic point that the average citizen does not understand how insurance works. Some see insurance as an entitlement ("I should get free health insurance as everyone should") but do not see that the costs are simply shifted to someone else whether it be the insurer, to the employer and employee who pays that premium, or the taxpayers. Put another way, there is no such thing as a free lunch. Health care costs will be paid by someone. The question is by whom.

Underlying Financial Literacy is the idea that citizens are consumers and should understand how finances work in order to make educated and informed financial choices. The Pennsylvania Association of Health Underwriters believes that this applies to health insurance. Paying for health care is something everyone has to deal with in our society. Should not Financial Literacy efforts also include understanding this important element of Financial Literacy as well?