

**Written Testimony  
Submitted by  
Pennsylvania Governor Edward G. Rendell  
Before the  
U.S. House of Representatives Committee on Small Business  
Hearing on  
“State Strategies to Expand Health Insurance Coverage for Small Businesses”  
Washington, DC  
February 26, 2008**

In the United States, we rely on businesses to provide health insurance coverage to 160 million workers and their dependents – which is nearly two-thirds of the population under the age of 65.

Most employees who receive employer-based coverage are happy with that system – and employers who offer health benefits are committed to continuing to serve as the backbone of our insurance system, according to a Summer 2007 Commonwealth Fund survey.

However, our current system also fosters spiraling supply costs, variable and inadequate quality, and little or no access for millions of Americans and these problems are building to a crisis for our health care system.

America now spends \$2.1 trillion per year or \$5.3 billion per day MORE on health care than we spend on food.

Despite the huge amount of money we are spending on health care, a study in the New England Journal of Medicine found that participants received only about 55 percent of the recommended medical care for their acute and chronic conditions. And, there are 46 million Americans without insurance.

According to the Institute of Medicine, the cost of lost productivity of these uninsured due to their inability to get medical care ranges as high as \$205 billion annually. The Commonwealth Fund did a similar study and found that common ailments alone – for which the uninsured do not receive treatment – such as headaches, back pain, arthritis or muscle and joint pain cost the nation’s employers \$62.1 billion dollars annually in lost workplace productivity and absenteeism.

Equally troubling is that our country ranks high in medical errors.

The United States loses more American lives to patient safety incidents every six months than it did in the entire Vietnam War. If medical errors were recognized as a cause of death by the CDC in its annual vital statistics report, it would be ranked as the 6th leading cause of death – outranking diabetes, influenza and pneumonia.

Nationally, hospital acquired infections are the fourth leading cause of death, affecting 2.2 million people every year and causing 100,000 deaths. And most hospital acquired infections can be avoided.

A recent Institute of Medicine study reported that racial and ethnic minorities tend to receive lower-quality health care than whites, even when insurance coverage, income, age and severity of conditions was comparable.

I firmly believe the health care crisis is a national problem and the best solution is a national solution. But, in the absence of such a plan, Governor's like Tim Pawlenty and me have had to come up with plans that will meet the needs of our states' residents.

As we started crafting our plan, which is called Prescription for Pennsylvania, we faced these Pennsylvania-specific statistics:

Since 2000, the rate of inflation has increased 17 percent while wages only increased by 13 percent. The increase in health insurance premiums for individual workers has increased by nearly 76 percent.

Growing health care costs are projected to almost double between now and 2014. Health care costs will become unsustainable for the state government, our employers and our residents at the present growth rate.

In Pennsylvania, we have 133,000 children and 767,000 adults who are uninsured. Of those, 71 percent are employed, 77 percent earn less than 300 percent of the federal poverty level, which in our state is \$29,400 for an individual and about \$60,000 for a family of four. And 27 percent of our uninsured have been without insurance for at least five years.

The overwhelming majority of the uninsured are employees in low-wage jobs. Small employers, employers with a majority of low-wage employees, and employers with older employees are less likely to be able to afford health care coverage for their employees.

Premiums for employer-based health insurance rose 9.2 percent in 2005, the 5th consecutive year of increases over 9 percent.

The smaller the business, the less likely employees will have employer-based coverage. In 2006, only 44.4 percent of employees in businesses with less than 10 employees have employer-based health care coverage. However, 77.5 percent of employers with 10-24 employees offer employer-based coverage.

The cost of providing for the uninsured is a burden borne by everyone. An estimated 6.5 percent of the cost of premiums for our insured residents goes toward the cost of care for the uninsured. That means that every Pennsylvania business that offers insurance ends up paying for those without.

Prescription for Pennsylvania is a set of integrated, practical strategies for improving health care and containing costs for all Pennsylvanians. The core components are affordability, accessibility and quality.

Our plan is centered on improving quality and access by delivering the right care, right, the first time and promoting wellness – strategies which that will save money while they improve lives

We have already begun the process of implementing portions of Prescription for Pennsylvania which deal with matters of quality and access to health care as well as reducing the impact of major health care cost drivers, which will help all of us including our small businesses.

In July of 2007, I signed a series of bills which expand the scope of practice for non-physician health care providers to ensure they may practice the fullest extent of their education and training. These bills – which will help to expand access to care and reduce the cost of care – are now in the regulatory process and we expect that they will be in full effect in mid-2008.

I also signed cutting-edge legislation to address health facility acquired infections, or HAIs, making Pennsylvania the national leader in the effort to improve quality outcomes and eliminate these types of medical errors. The HAI initiative provides guidelines for health care facilities to use in long-term infection control planning as well as in surveillance activities to allow for better implementation of infection control protocols.

Charged with reducing the human and economic cost of chronic diseases, the Pennsylvania Chronic Care Management, Reimbursement and Cost Reduction Commission, established by Executive Order in the spring of 2007, recently presented an extensive implementation plan which we believe will help to revolutionize chronic care management in the Commonwealth. We know that about \$.80 of every dollar spent on health care in Pennsylvania is spent on those with chronic diseases. Our plan focuses on better management of chronic disease through a team-based health care approach which will help to eliminate avoidable hospitalizations by ensuring that individuals with chronic disease are given the appropriate preventative care in the community.

In addition, the Commonwealth has already taken the lead on implementing a program to provide incentives for wellness among its employees through our “Get Healthy” program. Prescription for Pennsylvania includes programs to educate businesses on how they can encourage healthy behaviors in their employees to help reduce health care costs and boost productivity. For every dollar invested in worksite health promotion programs, a business or organization may realize a savings of \$3.50 through reduced absenteeism and health care costs.

So, we’ve made a good start, but we still have more to do.

On November 1, 2007, the Economic Policy Institute, a non-profit, non-partisan think tank released a report on the erosion of employer based health coverage using Census Bureau Current Household Surveys for 2000-2007.

Pennsylvania was reported as having the second highest loss of employer-based health care coverage for those under 65, with 491,392 fewer Pennsylvanians being covered through their employer in 2007 than in 2000.

Pennsylvania also had the second highest loss of coverage for children through employer-based coverage in the country, with 198,683 fewer Pennsylvania children receiving health care coverage through their parents' employers in 2007 than in 2000.

Despite these losses, employer-based coverage is still the most prevalent way Pennsylvanians receive health care, so it is critical that we try to stem this erosion of coverage as quickly as possible.

The findings in this report underscore the urgency to pass the remaining pieces of Prescription for Pennsylvania which focus on the people and small businesses that need the most help in paying for health care insurance.

Over the past year, I have heard from small business owners across the state about the dire circumstances they are facing as they struggle to provide health insurance for their employees.

People like Tim Wilkins, who is the president of PA Insulating Glass in Lewistown. His company has 16 employees, and he told us that he can only afford to provide an insurance plan for its few management team members; he cannot afford health insurance for his hourly workers. Even with paying premiums for just the management team, health costs are one of the company's largest expenses at more than \$20,000 annually. Tim said he is very worried about losing valued employees who go elsewhere to work just for the insurance. His small company simply cannot compete with larger companies who can offer health insurance.

I also heard from Patrick S. Au, the owner and CEO of Pittsburgh Engineering Consultants. Mr. Au's firm has 12 employees and he told us that his medical costs are second only to payroll in his overhead costs. He laments that his small group lacks the abilities that larger companies have to bargain over price. And, he believes his group is "discriminated against" because of the medical and age profile of the employees. He told us that even health savings accounts were priced too high for his group. Patrick's company is in danger of becoming another statistic in the EPI study of employers dropping their coverage.

While I was traveling across Pennsylvania talking about the need for the Prescription for Pennsylvania, I met Roberta Ayers from the Erie area. She and her husband own an auto body shop and they cannot afford insurance. She told us they had insurance 10 years ago, but it cost them \$500 a month with a \$5,000 deductible and they couldn't afford it. She

said she can't imagine what it would cost today. She said they don't go to the doctor, don't have yearly physicals, can't afford medical tests and "live on needles and pins hoping everything is okay." Prescription drugs are not an option. Because they are uninsured they "try to live healthy, but the older you get the more you think about it." These are just three stories, but there are thousands more like them in Pennsylvania alone. And they are the reasons we created Cover All Pennsylvanians (CAP), our plan to make affordable basic health insurance available to eligible small businesses that do not presently offer health insurance to their employees and to the uninsured. This coverage will be offered through the private insurance market.

Small business employers can participate if they have 50 or fewer employees who earn less than the state average wage. Employers who choose to join CAP will pay approximately \$130 per employee per month, and each employee will pay a premium of \$10 to \$70 per month depending on family income.

All uninsured Pennsylvanians, no matter what size company they work for, will be able to purchase affordable health insurance through CAP. A family of four who earns up to \$61,000 a year will receive help from the state paying their premiums.

The premiums paid by the employee for their coverage under CAP would be \$0 for individuals with a household income up to 150 percent of the federal poverty level, \$40 for 150-200 percent FPL, and \$60 for 201-300 percent FPL. In addition, all uninsured adults who earn more than that amount – 301 percent of the federal poverty level and higher – could participate in Cover All Pennsylvanians by paying the full cost of the premium.

CAP would also allow businesses that already provide insurance to enroll individuals who may have previously declined to enter the pool because they could not afford the employee contribution. The Commonwealth would provide the same amount of funding toward that premium as it would otherwise have done if the individual enrolled in the CAP program. This will allow small businesses who do offer insurance to increase their pool which usually results in lower, more stable rates.

The CAP program would be funded through redirected existing funds; a new 10-cent-per-pack increase in the cigarette tax; a first ever tax on cigars and smokeless tobacco; federal matching funds; and funds from a surplus in an account which helped physicians pay for their medical malpractice premiums.

Originally, I proposed a 3 percent Fair Share Assessment on businesses that did not offer health insurance to their employees. I proposed the assessment because I believe that it is, in fact, fair. Businesses who currently pay to cover their employees are already shouldering the burden for those who do not through increases in their premiums which go toward covering the cost of uncompensated care. In addition, Pennsylvania provided hospital subsidies totaling \$400 million to cover uncompensated care for the uninsured in 2006.

I pulled the Fair Share Assessment as a funding source when I was told that the state legislature would not act on CAP if it included anything that might be considered a business tax. This is despite the fact that according to the Commonwealth Fund survey of employers in 2007; “Two-thirds of employers—including those who provide health benefits and those who do not—agree that all employers should share in the cost of health insurance for employees, either by covering their own workers or by contributing to a fund to cover the uninsured.”

This basic commitment is also at the heart of state reform efforts in Massachusetts and California, and it is what I believe is right for Pennsylvania. Never-the-less, I have proposed another option to replace the Fair Share Assessment with surplus funds in the Health Care Provider Retention Account.

The Health Care Provider Retention Account is supported by funds from a 25-cent cigarette tax. This fund helps physicians and other health care providers pay for their medical malpractice premiums. Due to the improvements in our medical malpractice climate in Pennsylvania, there is a surplus in that fund. I have proposed using a portion of that to fund CAP, while dedicating the rest to a long-term commitment to medical malpractice relief for Pennsylvania’s physicians.

In order to fully address the problems in health insurance affordability for small businesses, Prescription for Pennsylvania also includes a series of insurance reforms to help regulate and stabilize premiums for small business. The growth and volatility in the premium costs in Pennsylvania for small employers is a driving factor and primary reason for the erosion of employer-based coverage in Pennsylvania.

In less than 10 years, the average cost for premiums for family coverage in Pennsylvania through employer sponsored health care has gone from \$4,859 in 1996 to \$11,416 in 2005. During the same period, the average premium per enrolled employee of a small business in Pennsylvania more than doubled from \$2,036 to \$4,625.

If current trends continue, in five years the cost to insure a family of four would be more than \$20,000 a year, representing as much as 30 percent of the median household income for that family.

That’s why the insurance reforms contained in Prescription for Pennsylvania that are currently being debated in the Pennsylvania General Assembly are so critical. They will ensure that small businesses and other consumers are not faced with skyrocketing costs for their health care coverage.

These reforms are especially critical to our small businesses because 72.4 percent of all private businesses in Pennsylvania and 26.8 percent of all Pennsylvania-based employees work for businesses with fewer than 50 employees and employers with fewer than 10 employees make up 56.4 percent of all businesses in the Commonwealth.

Under our current system, small employers can't spread their risks over a large number of employees the way large employers can. Large employers have leverage for getting preferred rates because of their size and the number of employees-enrollees. When community rating prevailed in Pennsylvania, small businesses were rated as part of a larger pool where risks were shared and insurance was more affordable for more people.

Over the years, more and more insurance companies moved to a demographic form of rating and rates were determined based on the characteristics of the small group. So if a small business had some older employees, and/or women of child bearing age, and/or an employee with a chronic condition, these individual and combined factors spiked the premium rates for employers and employees alike making health care coverage unaffordable.

In addition, no limit on rating factors causes large volatility in rates. A business with nine employees can face a huge premium increase if an employee is hospitalized the previous year, or if a 25-year-old employee is replaced by a 45-year-old employee or a male employee is replaced by a woman of child-bearing age.

Pennsylvania is now one of only two states in the country that does not limit the rating factors insurance companies can use to determine rates in the small group and individual group market.

We would change that. We would only allow insurance companies to use age, location and family size to determine rates. We would also limit the most expensive premium rate to no more than twice as costly as the lowest rate for small and individual group coverage, so risks can be shared more broadly and so insurance can be affordable for more people.

We also believe it is important that small employers are getting good value for their premium dollar. That is why we are proposing that 85 percent of every premium dollar must pay for health care and, if not, the Insurance Commissioner can require insurers to rebate premiums to employers.

Also, small employers have told us about how hard it is to determine which health plans are the best deal for their premium dollars. They find it almost impossible to be able to compare one plan with another because of plan variation.

We would require insurers writing health insurance in the small employer and individual market to offer the same basic health care plan, so employers can compare apples to apples in choosing health care coverage. This will foster price competition in the small group and individual market.

We've heard the objection from the insurance industry that our proposal will hurt competition in the small group market in our state. Evidence from our surrounding states does not bear that out.

The other initiatives in the of Prescription for Pennsylvania that I mentioned earlier will generate significant health care cost reductions by eliminating additional costs due to avoidable health care acquired infections, avoidable hospitalizations due to lack of community care for chronic conditions, and avoidable errors.

To ensure that these savings are translated into reduced premiums for employers and individuals, Rx for PA would give additional rate approval authority to the Insurance Commissioner, tying cost control in health care delivery to cost control of health care insurance.

These programs are not arbitrary. We have studied national and international data on private and public health care systems, insurance programs, the effects of insurance on employee productivity, the relative costs of health care and economic growth, and best-practice models in various other states and communities to determine what blueprint would be the best fit for Pennsylvania – a public-private partnership to improve the quality, accessibility and affordability of health care.

We currently have a strong private industry employer-based health care insurance system supported by the strength of our businesses. Yet, as our research has shown, few American business owners would be satisfied with the performance of the health care system if it were their business. Spiraling supply costs, inefficiencies which drive up overhead, poor quality outcomes which endanger customers, and little or no access for millions of Americans - these are not the markers of a successful business model. Rather, these are the markers of a business in crisis.

As the largest collective purchasers of health insurance, employers can and should drive the fundamental health system reform our country needs and Americans want. But in order for them to do so, we must be sure that we are giving our small businesses the tools they need to keep their employees healthy ensuring their productivity continues to rise so that they can succeed in an increasingly global marketplace.

###