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Governor's Press Office ♦ Room 308, Main Capitol Building ♦ Harrisburg, PA 17120  
www.governor.state.pa.us ♦ 717-783-1116 (Phone) ♦ 717-772-8462 (Fax)

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*EDWARD G. RENDELL, Governor*

**FOR IMMEDIATE RELEASE:**  
May 5, 2008

**CONTACT:**  
Amy Kelchner, GOHCR  
717-346-8379

Susan Hooper, Budget Office  
717-265-8067

**BUDGET SECRETARY SAYS PA ABC HEALTH CARE PLAN  
IS AFFORDABLE, SUSTAINABLE**

*PLAN AIDS SMALL BUSINESSES AND INDIVIDUALS WITHOUT INSURANCE*

**HARRISBURG** – Budget Secretary Michael J. Masch said today that the Pennsylvania Access to Basic Care program that the House of Representatives adopted in March is affordable and sustainable. Governor Edward G. Rendell and people from across Pennsylvania have been urging the state Senate to quickly approve the measure, which passed the House with bipartisan support.

“Critics of PA ABC have said they don’t know how much the plan will cost and how it will be possible to fund it over time,” Masch said. “We now have solid revenue and spending projections that show that the identified revenues are more than adequate to fully fund all of the programs in PA ABC on a sustainable basis.”

At Masch’s direction, the Governor’s Budget Office worked with an international actuarial consulting firm, Mercer, to estimate the likely costs of PA ABC. The budget office also examined the level of funding available to support PA ABC over the next 10 years.

PA ABC is a private-sector health insurance package that would be available to eligible small businesses and low- and moderate-income individuals. It builds upon the health insurance proposals that were part of Governor Rendell’s Prescription for Pennsylvania health care reform plan.

According to an Insurance Department study, there are 767,000 uninsured adults in Pennsylvania. PA ABC especially targets small businesses because the majority of Pennsylvania’s uninsured adults have full-time jobs and many are employed by small businesses. PA ABC enables these uninsured individuals and their employers to purchase health coverage that is comprehensive, affordable and focused on wellness and prevention rather than costly emergency treatment.

Health coverage under PA ABC will be offered through private insurance companies. To discourage employers from dropping coverage they already offer, the PA ABC bill offers health care grants to small employers who already offer coverage and have low-wage workers. The bill

prohibits employers from participating in PA ABC if they have offered health care coverage to their employees over the past six months.

Because low-income workers in small businesses have the hardest time obtaining affordable health coverage, the PA ABC bill allows employers to participate in PA ABC if they have 50 or fewer employees and, if, on average, these employees earn less than 300 percent of the federal poverty level, or \$31,200 a year.

All uninsured adults in Pennsylvania – no matter their employment status or income level – will be able to buy affordable health insurance through this program at the same premium rate the commonwealth pays. Those with incomes over 300 percent of the federal poverty level will have to prove that they haven't been able to find affordable health care coverage in the private market. Premiums will be reduced for individuals and families with low or moderate incomes. For example, an individual with a family of four would be eligible for a lower ABC premium if that family earned \$42,400 a year or less.

The key funding sources for PA ABC are: state funds used currently to support Pennsylvania's much more limited and more expensive adultBasic program; federal matching funds; premium payments paid by participating employers and employees and other individuals; and a portion of state cigarette tax revenues that has been earmarked to support improved access to health care for Pennsylvanians.

The Governor's Budget Office analysis found that the estimated total cost of PA ABC in the first year will be \$501 million, which would permit nearly 143,000 uninsured Pennsylvanians to obtain affordable health coverage. By the fifth year, the estimated total cost of the plan will be \$1.1 billion, and more than 272,000 individuals would be covered.

Senate Bill 1137, the House-passed legislation establishing PA ABC, requires that in addition to the other funding sources already identified, at least \$120 million in further funding is to be identified and deposited into a new account to support PA ABC. The Governor's Budget Office evaluated two possible funding sources to support this account that have been proposed by Governor Rendell to help support affordable health care for uninsured Pennsylvanians: a 10-cent-per-pack increase in the state cigarette tax and a 36-cents-per-unit tax on other tobacco products, such as cigars, cigarillos and chewing tobacco. The budget office analysis finds that these two revenue sources would generate nearly \$120 million a year.

Masch noted that a 2007 Quinnipiac University poll showed that 71 percent of Pennsylvanians support raising the tax on cigarettes and using the money to help pay for health insurance for Pennsylvania residents.

The budget office analysis assumes that additional funding for PA ABC can and should be provided through a gradual redirection of some payments the state now makes to hospitals for treating the uninsured. As more uninsured Pennsylvanians enroll in PA ABC, hospitals will be treating fewer uninsured patients and a portion of the current "uncompensated care" payments could be redirected to PA ABC.

Masch pointed said the budget office does not expect revenue from cigarette taxes to grow over time, since the commonwealth's goal is to reduce tobacco consumption. He explained that the

budget office projections anticipate declining annual revenue from cigarette taxes, but the analysis finds that all of the programs in the PA ABC bill can still be fully funded over the next decade and beyond because the other funding sources that have been identified to support the programs in the House-passed PA ABC bill will grow over time and make up for any reductions in cigarette tax funding.

“If the Senate passes a version of PA ABC that is similar in design to what the House has approved, and that uses the same funding sources, there will be more than enough funding to sustain the program over the next decade,” Masch said.

Masch said another important health care issue addressed in the House-passed PA ABC bill is Pennsylvania’s continuing need to recruit and retain world-class doctors and other medical professionals. The House-passed PA ABC legislation addresses this issue by continuing the successful “Mcare” medical malpractice premium abatement program that was established by Governor Rendell and the General Assembly five years ago.

Mcare is a state-run fund that provides a second layer of medical malpractice coverage for Pennsylvania health care providers. Since 2003, Pennsylvania health care providers have received nearly \$1 billion in state-provided Mcare abatements that have reduced their medical malpractice costs. The House-passed PA ABC bill extends the Mcare abatement for another 10 years and then phases out Mcare and returns that coverage layer to the private insurance market, as has long been sought by the state’s hospitals and doctors. The legislation provides a mechanism to fully pay off Mcare’s remaining outstanding liabilities once the program is completely phased out.

“The PA ABC bill passed by the House would bring total state financial assistance to physicians and other health care providers to \$4.7 billion,” Masch said. “This bill provides for more than \$3.7 billion in state-provided payments to reduce and then eliminate health care providers’ Mcare medical malpractice contributions. That funding is in addition to the nearly \$1 billion they have already received.”

Some critics of the House-passed PA ABC bill have suggested it is similar to established or proposed programs in other states that aim to cover the uninsured and that PA ABC will face unexpected financial challenges, as some of those programs have – including higher-than-expected enrollments and costs.

Masch stressed that PA ABC is very different in its design from programs that have been proposed and enacted in other states, mainly because its benefits have been clearly defined with sound cost estimates. In addition, other state programs were mandated while Pennsylvania’s is not.

“PA ABC has built-in safeguards that make and keep the program financially stable – including a requirement that enrollment be limited by available funding and a clearly defined benefit package. It is far, far less likely that PA ABC will encounter the kind of funding and affordability challenges that have emerged in other states,” Masch said.

The budget office projections of PA ABC’s costs and funding sources anticipate that the program will have a modest surplus at the end of each year.

“Our conclusion is that PA ABC is a carefully crafted, prudent and sustainable solution to one of

Pennsylvania’s most pressing problems – making affordable health care coverage available to small businesses and uninsured individuals,” Masch said.

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*The Rendell administration is committed to creating a first-rate public education system, protecting our most vulnerable citizens and continuing economic investment to support our communities and businesses. To find out more about Governor Rendell's initiatives and to sign up for his weekly newsletter, visit [www.governor.state.pa.us](http://www.governor.state.pa.us).*

**EDITOR’S NOTE:** A copy of Secretary Masch’s letter describing the Governor’s Budget Office analysis of Senate Bill 1137, which includes the PA ABC program, is available at the Governor’s Office of Health Care Reform Web site at [www.rxforpa.com](http://www.rxforpa.com). Select the link for “ABC Financial Analysis.”