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Report Summary

For the last nine years, the Commonwealth of Pennsylvania's adultBasic program has been providing affordable, no-frills health insurance coverage to thousands of Pennsylvanians.

Since 2005, Pennsylvania's four Blue Cross/Blue Shield plans (the Blues) have provided most of the funding for adultBasic under the Community Health Reinvestment (CHR) Agreement, in order to satisfy the charitable obligation they have in return for their tax-exempt status. That agreement expires December 31, 2010. Without a new agreement, the primary funding source for adultBasic will be lost and more than 45,000 people will lose their low-cost health insurance coverage.

This crisis comes amid continued growth in the ranks of Pennsylvania's uninsured and renewed scrutiny of the large and growing surpluses held by the nation's and the Commonwealth's non-profit Blue Cross/Blue Shield plans.

The Blues (Highmark, Independence Blue Cross, Blue Cross of Northeastern Pennsylvania, and Capital Blue Cross) could voluntarily agree to extend their funding of adultBasic through 2013, serving as a temporary bridge until federal healthcare reforms go into effect in January 2014.

If the Blues do not agree to extend funding, the Pennsylvania General Assembly should take action this fall to continue the program. Legislation sponsored by House Majority Leader Todd Eachus (HB 2455) would continue the CHR agreement until December 2013, providing continuing coverage for 45,000 enrollees.

Blues' Surpluses Continue to Grow

While CHR funds are currently used to support adultBasic (providing \$125 million in funding for the program in 2009-10), they were negotiated to resolve a different problem: public outcry over explosive growth in surpluses accumulated by the state's four Blue Cross/Blue Shield plans.

The report found that despite making CHR contributions, the Blues' surpluses have continued to grow:

- From 2002 to 2009, the four companies' cumulative surpluses went from **\$3.5 billion to \$5.6 billion**, an increase of 61.4%. **These surpluses grew two-and-a-half times faster than Pennsylvania wages.**
- Even with their combined contributions of more than \$500 million to the Commonwealth to support adultBasic, the Blues have reported \$821 million in profit since 2005.
- In 2009, the Pennsylvania Insurance Department evaluated the size of the Blues' surpluses:
 - Highmark's surplus was found to be so large that the company is not allowed to add a percentage to its premium rates specifically to add to its surplus.
 - The other three plans all had efficient surpluses – large enough to absorb routine changes in rates of investment returns and underwriting losses.
 - All four companies were found to be substantially above minimum standards set by the Blue Cross and Blue Shield Association and state regulators.

Without action to continue the Community Health Reinvestment agreement through 2013, more than 45,000 Pennsylvanians will lose health coverage through adultBasic.

Recommendations:

- *Pennsylvania's Blue Cross/Blue Shield plans should agree to extend the Community Health Reinvestment (CHR) Agreement through December 2013.*
- *The Pennsylvania General Assembly should enact HB 2455, which would establish the CHR in statute.*
- *The Pennsylvania Insurance Department should revisit its standards for evaluating the Blues' surpluses.*

ConsumersUnion looked at Blue Cross/Blue Shield plans across the country and found that the plans had surpluses that were many times the minimum standards. Included in the study was Blue Cross of Northeastern Pennsylvania, whose surplus was more than double the required level. To prevent the Blues from building excessive surpluses and to help keep premium rates in check, the Pennsylvania Insurance Department should revisit its surplus rating system.

Who Uses AdultBasic?

AdultBasic provides Pennsylvanians who are not eligible for Medicaid or Medicare and are between the ages of 19 and 64 with health insurance for \$36 per month. To qualify, a person's income cannot exceed 200% of the Federal Poverty Level. For a single person, this works out to a maximum income of \$21,660, and for an enrollee in a family of four, the limit is \$44,100.

People in every county in Pennsylvania rely on adultBasic for affordable health coverage, with usage slightly higher in rural counties. The report also found that:

- There were 45,927 Pennsylvanians enrolled in adultBasic as of June, with another 397,671 on the waiting list. The waiting list has grown by more than 300,000 people since the start of the recession in December 2007.
- More than 85% of adultBasic enrollees have incomes below \$30,000.
- Nearly 70% of enrollees are white and 63% are women.
- One-third of enrollees are between 46 and 55 years of age, while 27% are between age 36 and 45. On the waiting list, there is a large build-up of people between ages 19 and 45.
- Almost 50% of adultBasic enrollees retain their coverage for more than four years.

Conclusion

When enacted, the Community Health Reinvestment Agreement was hailed as a model for the nation, and it continues to serve as a standard to establish appropriate community benefit contributions for other non-profit Blue Cross/Blue Shield plans. Extending these agreements supports the Blues' charitable obligations and maintains access to affordable insurance for low-income working Pennsylvanians.

"This program (adultBasic) saved us not once, but many times... Before applying for adultBasic, I had to look for other options. The cheapest insurance I could find was \$500/month (which is unaffordable for us) and it would not cover my pre-existing conditions. I had even been hung up on by insurance agents after mentioning to them my pre-existing conditions."

-Mary H.

Introduction

Pennsylvania's low-cost health insurance program for adults, called adultBasic, is in jeopardy. AdultBasic was established by Governor Tom Ridge using funds from Pennsylvania's share of the national settlement with big tobacco companies and began insuring Pennsylvanians in 2002. As pressure on the tobacco settlement increased, another source of funding was found to fund the popular program. In 2005, the Pennsylvania Blue Cross/Blue Shield plans agreed to contribute to adultBasic in order to satisfy the charitable obligation they have in return for their tax-exempt status. That agreement expires December 31, 2010. **Unless renewed or unless another funding source is found by the end of the year, 45,927 Pennsylvanians will lose their health insurance.**

This crisis comes amid continued growth in the ranks of Pennsylvania's uninsured and renewed scrutiny of the large and growing surpluses held by the nation's and the Commonwealth's non-profit Blue Cross/Blue Shield plans.

AdultBasic can serve as an important bridge until federal healthcare reform goes into effect in January 2014. Without an extension, enrollees will be forced to go without insurance, or pay significantly higher premiums for three years.

The Pennsylvania General Assembly should take action this fall to continue the program. Legislation sponsored by House Majority Leader Todd Eachus would continue the Community Health Reinvestment (CHR) Agreement until December 2013, providing continuing coverage for 45,000 enrollees.

While CHR funds are currently used to support adultBasic, they were negotiated to resolve a different problem: public outcry over explosive growth in surpluses accumulated by the state's four Blue Cross/Blue Shield plans (the Blues). The Blues' surpluses have grown from \$3.5 billion in 2002 to \$5.6 billion in 2009. At the same time, the Blues have undergone a "quiet conversion," moving much of their business from the non-profit parent company to for-profit subsidiaries. Although companies pay a 2% insurance premiums tax on for-profit business, rates of for-profit insurers are not subject to rate approval by the Pennsylvania Insurance Department, a motivating factor in the conversion activities.

When enacted, the CHR Agreement was hailed as a model for the nation, and it continues to serve as a standard to establish appropriate community benefit contributions for other non-profit Blue Cross/Blue Shield plans. Extending these agreements supports the Blues' charitable obligations and maintains access to affordable insurance for low-income working Pennsylvanians.

Overview of adultBasic

Act 77 of 2001 outlined Pennsylvania's distribution of receipts from the Tobacco Settlement Master Agreement and created an insurance plan for adults who could not qualify for Medicaid or Medicare. This plan, now called adultBasic, began serving low-income, uninsured Pennsylvania residents between the ages of 19 and 64 on July 1, 2002. The program is administered by the Pennsylvania Insurance Department, but insurance is provided by private insurance companies under contract with the Department.

To qualify for adultBasic, applicants must earn less than 200% of the Federal Poverty Level, based on family size.¹ Enrollees may not have any other health insurance coverage, and must be without insurance coverage for 90 days prior to enrollment, unless loss of coverage was due to a job loss in the family. An applicant must be a resident of Pennsylvania for 90 days prior to enrollment and must be a U.S. citizen or have permanent legal immigrant status.²

As of June 2010, adultBasic provides basic health insurance to 45,927 Pennsylvanians. The Insurance Department maintains a waiting list for the program, which has grown to a staggering 397,671,³ fully one-third of the 1.2 million uninsured Pennsylvanians.⁴ The Great Recession has contributed to growth in demand for the program. In December 2007, the waiting list was less than a third of its current size.

The healthcare coverage that this state-subsidized program provides is invaluable to the low-income Pennsylvanians it serves. AdultBasic has two key advantages. Premiums for the program are set at \$36 per month, which is very affordable. Secondly, the program does not refuse coverage on the basis of pre-existing conditions, which is especially beneficial to individuals who require consistent medical care, but had few affordable options prior to the program. (Federal healthcare reform has outlawed the denial of health insurance coverage based on pre-existing conditions, but this provision will not go into effect for adults until 2014.) By sustaining adultBasic, current enrollees who have pre-existing and chronic medical conditions will be able to keep their health insurance until federal reforms are in place.

"This program (adultBasic) saved us not once, but many times... Before applying for adultBasic, I had to look for other options. The cheapest insurance I could find was \$500/month (which is unaffordable for us) and it would not cover my pre-existing conditions. I had even been hung up on by insurance agents after mentioning to them my pre-existing conditions."
-Mary H.

¹ Family income for most applicants is calculated using Gross Income less an Earned Income deduction (as is used for Medicaid) and certain childcare expenses.

² Pennsylvania Insurance Department, adultBasic Eligibility (accessed July 19, 2010)
http://www.portal.state.pa.us/portal/server.pt/community/health_insurance/9189/adultbasic_eligibility/595491.

³ Monthly adultBasic enrollment and waiting list figures are compiled by the Pennsylvania Insurance Department. Enrollment totals by county can be located here: http://www.portal.state.pa.us/portal/server.pt/document/744325/ab_enrollment_pdf.
Tabulation of adultBasic waiting list by county found here:
http://www.portal.state.pa.us/portal/server.pt/document/744326/wait_list_pdf.

⁴ U.S. Census Bureau, Current Population Survey, 2009 Annual Social and Economic Supplement,
http://www.census.gov/hhes/www/cpstables/032009/health/h06_000.htm.

As the name implies, adultBasic provides basic medical coverage for participants. Doctor visits, specialists, maternity care, hospitalizations, diabetic supplies, and rehabilitation are covered. AdultBasic does not cover dental care, vision, hearing, mental health services, or most prescription drugs. Though not the most complete or wide-ranging coverage, adultBasic has helped many thousands of people and their families receive the basic healthcare they need.

Individuals who are on the waiting list may purchase coverage at full cost, which was \$330 per month until this year. In March 2010, the cost to purchase unsubsidized adultBasic insurance jumped from \$330 to \$600 per month – nearly an 82% increase. Effective July 2010, this unsubsidized premium cost increased to \$629 per month.⁵ Prior to these price hikes, 3,500 people⁶ chose to purchase unsubsidized healthcare coverage. In June 2010, only 1,052 people were using the full price option.

The newly enacted federal healthcare reform law defines affordable insurance as costing 8% or less of one’s income. Using this standard, the unsubsidized adultBasic premium is 35% of annual income and 17% of the annual income for a family of four.⁷

Four private insurers provide the insurance coverage under contract with the state: Highmark is the largest contractor with 22,015 enrollees; Independence Blue Cross provides coverage for 13,566 individuals; Blue Cross of Northeastern Pennsylvania (NE PA) covers 5,084 enrollees; and Unison Health Plan, a division of United Health, covers 5,262 enrollees.⁸

To qualify for adultBasic, participants must have a maximum family income of 200% or less of the Federal Poverty Level, based on family size (see table below for current income limits).

adultBasic Income Limits by Family Size	
Family size	Maximum Family Income
1	\$ 21,660
2	\$ 29,140
3	\$ 36,620
4	\$ 44,100
5	\$ 51,580
6	\$ 59,060
7	\$ 66,540
8	\$ 74,020
Source. Pennsylvania Insurance Department ⁹	

⁵ Pennsylvania Insurance Department, “adultBasic Frequently Asked Questions,” (accessed July 19, 2010) http://www.portal.state.pa.us/portal/server.pt/community/health_insurance/9189/adultbasic_waiting_list/595502.

⁶ Pennsylvania Health Access Network, “adultBasic Premium Increases Will Make Insurance Unaffordable,” January 14, 2010, <http://www.pahealthaccess.org/blog/adultbasic-premium-increases-will-make-insurance-unaffordable>.

⁷ Percentages based on the 2009 Federal Poverty Guidelines, which can be found here: <http://aspe.hhs.gov/poverty/09poverty.shtml>.

⁸ Pennsylvania Insurance Department, “adultBasic Enrollment by Contractor by County, June 2010.” http://www.portal.state.pa.us/portal/server.pt/document/744324/ab_contractor_pdf.

⁹ Pennsylvania Insurance Department, “adultBasic Eligibility,” (accessed July 16, 2010) http://www.portal.state.pa.us/portal/server.pt/community/health_insurance/9189/adultbasic_eligibility/595491.

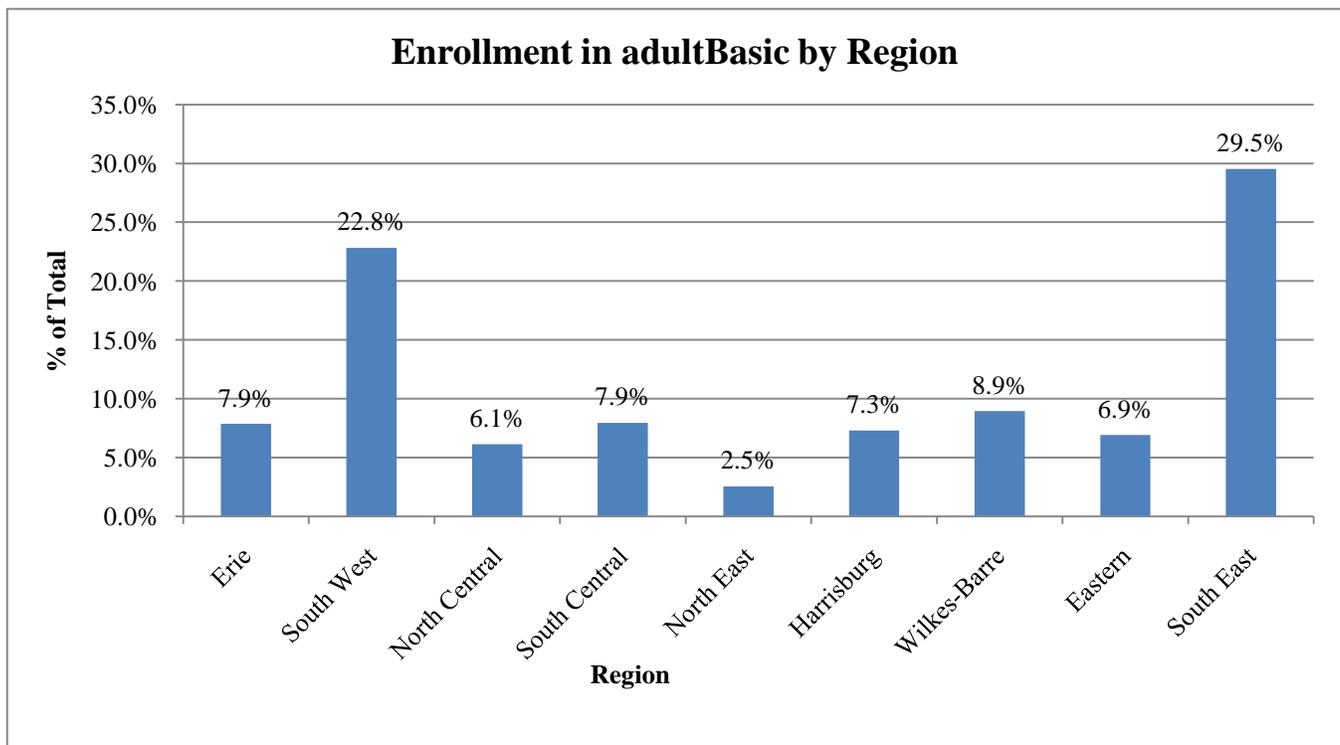
Who Uses adultBasic?

Data from the Insurance Department for June 2010 offers a profile of the typical adultBasic enrollee. The vast majority of enrollees, almost 70%, are white and almost two-thirds are women. The largest share – 33% – is 46 to 55 years old, and the largest group earns between \$10,000-\$20,000 per year, which is around the full-time minimum wage income of \$15,080.

Significantly, individuals tend to remain with the program. Almost 32% have been enrolled for five years or more and fully 76% have been on the program for two years or more.

Every county in Pennsylvania has adultBasic participants, ranging from 31 in Montour County to 6,897 in Philadelphia (see Appendix 1 for enrollment by county).

The demographics of the 397,671 people on the waiting list tend to mirror the enrolled population. Most are white females with similar incomes. The waiting list is significantly younger, with the highest percentage in the 26-35 age range. This may be related to the national recession, as younger people who have lost jobs find themselves without insurance coverage. There are people on the adultBasic waiting list from every county, a fact indicative of the need for low-cost health insurance across the state.



Source: Pennsylvania Insurance Department tabulation of adultBasic demographic data.

While adultBasic users are not evenly distributed geographically, neither is Pennsylvania’s general population. Over 50% of adultBasic enrollees come from the two more populated areas of Pennsylvania, the South East and South West regions.¹⁰ According to 2009 Census statistics, 31.8% of the Pennsylvania population lives in the South East region,

¹⁰ Erie Region: Crawford, Erie, Lawrence, Mercer, Venango, Warren.

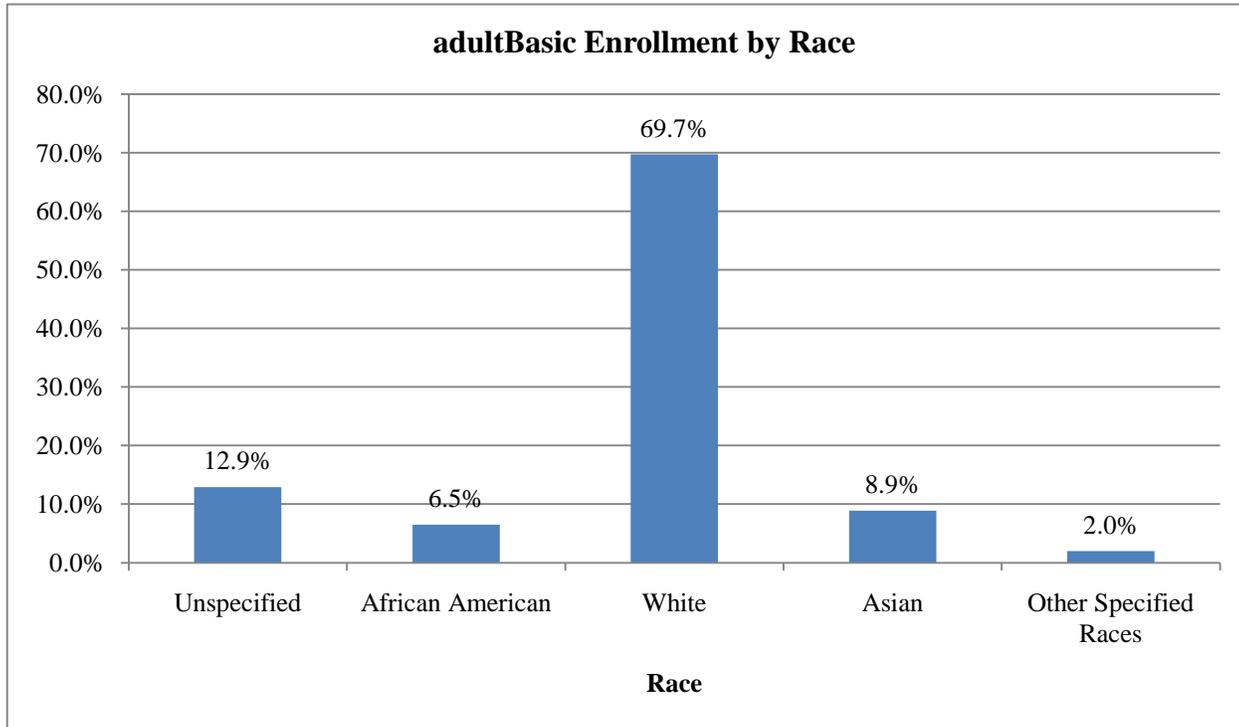
South West Region: Allegheny, Beaver, Butler, Fayette, Greene, Washington, Westmoreland.

North Central Region: Armstrong, Cameron, Clarion, Clearfield, Clinton, Elk, Forest, Indiana, Jefferson, McKean.

South Central Region: Bedford, Blair, Cambria, Centre, Fulton, Huntingdon, Mifflin, Somerset.

North East Region: Bradford, Lycoming, Potter, Sullivan, Tioga.

while its share of the state’s adultBasic enrollment is approximately that percentage, at 29.5%. The South West region’s population is only 18.5% of Pennsylvania, while its adultBasic enrollment percentage surpasses that figure at 22.8%. The Harrisburg and Eastern regions have relatively low enrollment percentages despite being the third and fourth most populous Pennsylvania regions. All other regions have enrollment in proportion to population.



Source. Pennsylvania Insurance Department tabulation of adultBasic demographic data.

The vast majority (70%) of adultBasic enrollees are white. An unexpected 9% of enrollees are Asian, while 6.5% are African Americans.¹¹ Almost two-thirds (62.8%) of people enrolled in adultBasic are women.

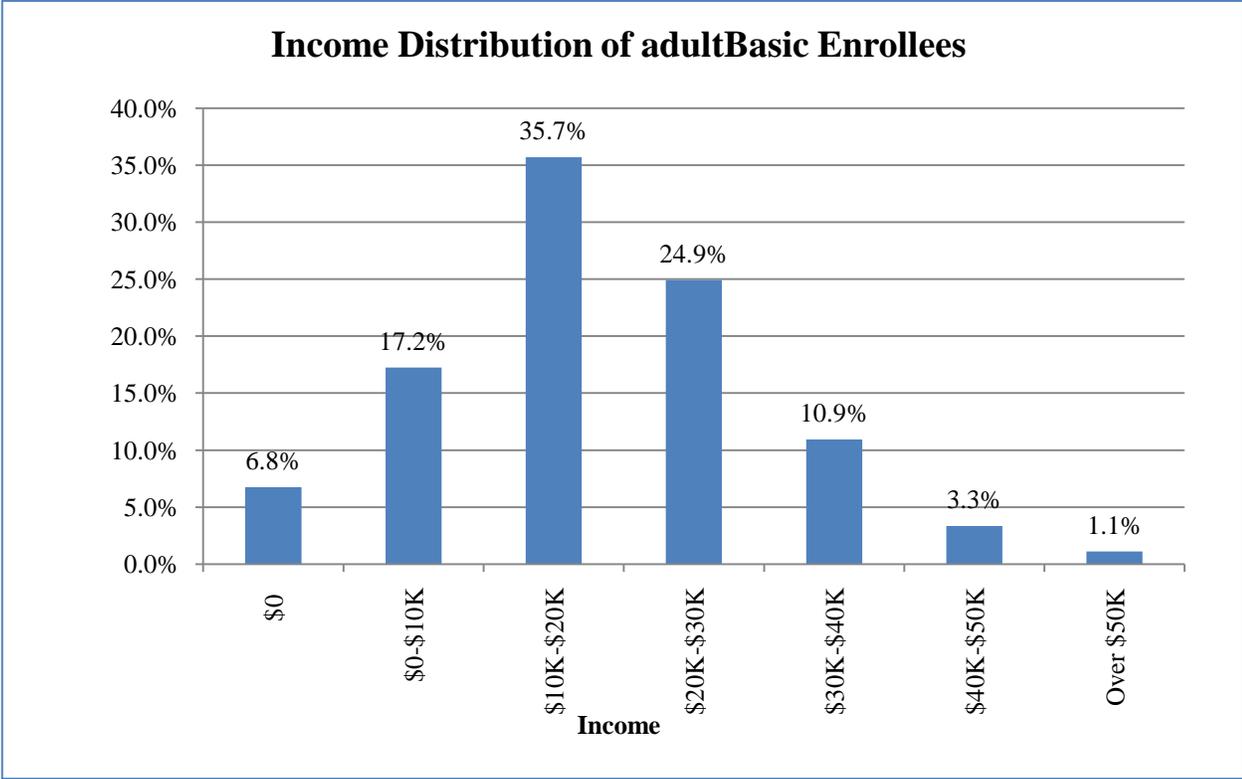
Harrisburg Region: Adams, Cumberland, Dauphin, Franklin, Juniata, Lancaster, Lebanon, Perry, York.

Wilkes-Barre Region: Carbon, Columbia, Lackawanna, Luzerne, Monroe, Pike, Susquehanna, Wayne, Wyoming.

Eastern Region: Berks, Lehigh, Montour, Northampton, Northumberland, Schuylkill, Snyder, Union.

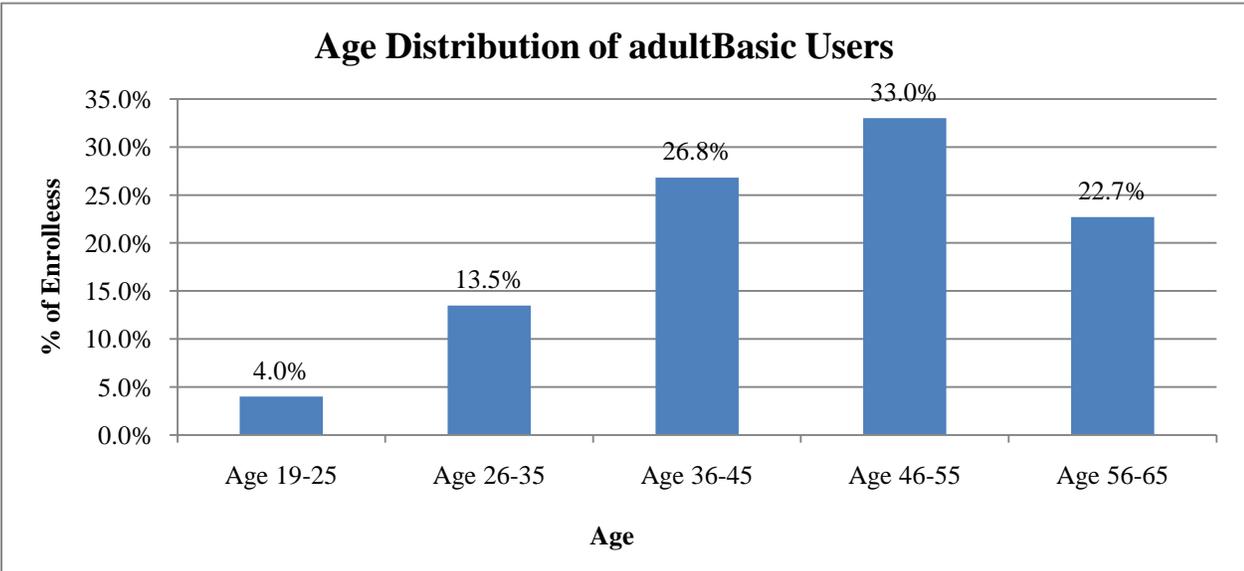
South East Region: Bucks, Chester, Delaware, Montgomery, Philadelphia.

¹¹ People of Hispanic ethnicity were not designated as a separate category under race. As of June 2010, 1.4% of enrollees identified themselves as being of Hispanic origin.

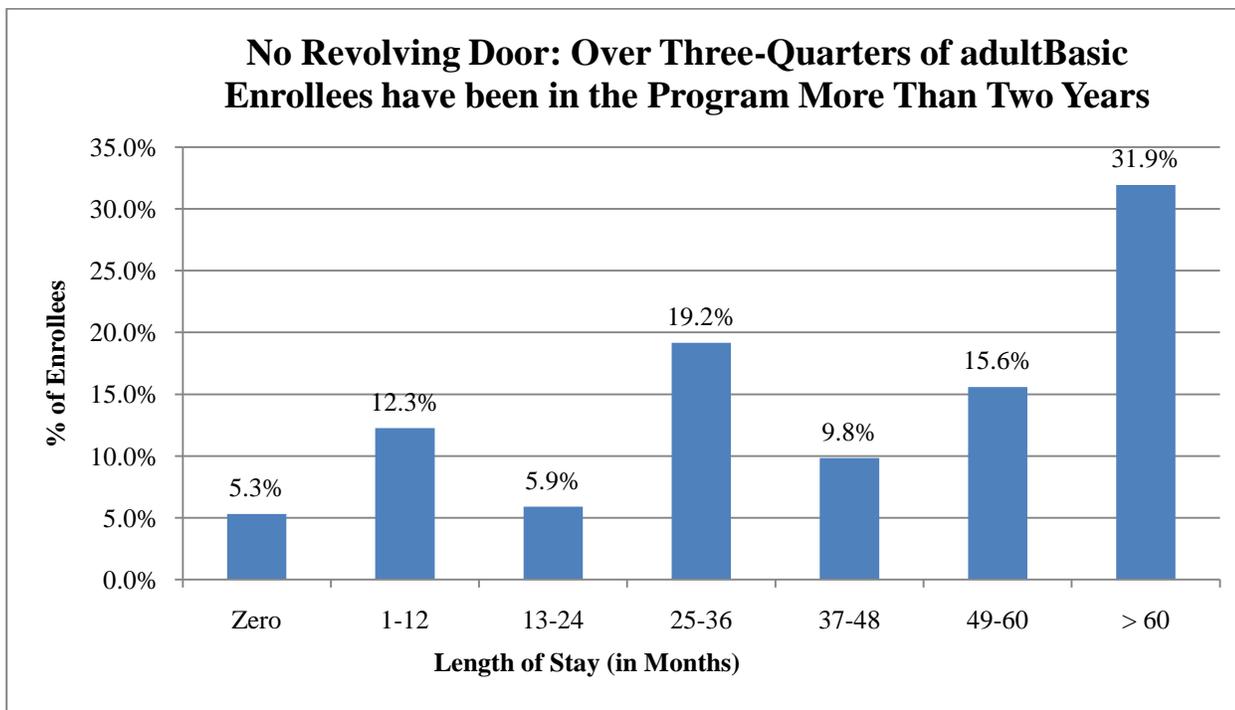


Source. Pennsylvania Insurance Department tabulation of adultBasic demographic data.

Almost 85% of adultBasic users earn \$30,000 or less per year. As the program is limited to 200% of poverty, it is not surprising that most people enrolled in adultBasic have modest incomes.



Source. Pennsylvania Insurance Department tabulation of adultBasic demographic data.



Source. Pennsylvania Insurance Department tabulation of adultBasic demographic data.

Claims that people go onto adultBasic, use medical services (operations and other procedures), and then exit the program are not supported by the data. More than 75% of enrollees have been on adultBasic for more than two years. In fact, almost 50% of adultBasic enrollees have retained their coverage for more than four years, leaving little room for people on the waiting list to be offered subsidized coverage. Ending the program will push these Pennsylvanians closer to financial ruin.

For demographic information on individuals on the adultBasic waiting list, please see Appendix 2.

History of adultBasic Enrollment and Waiting Lists

Available funding has allowed between 37,000 and 57,500 Pennsylvanians to be enrolled in adultBasic at any one time. While funding for the program has increased over time, so have healthcare costs.

Too many Pennsylvanians are without health insurance and that number has only grown during the Great Recession. According to the U.S. Census Bureau, 8.3% of Pennsylvanians (1.0 million) lacked health insurance in 2000-2001. By 2007-2008, that percentage rose to 9.7%, or 1.2 million Pennsylvanians.¹²

Karen F. had paid for her own health insurance for many years and then found she could no longer afford it. She signed up for adultBasic and was on the waiting list for 18 months before getting coverage. Luckily she did, as she was then diagnosed with a brain tumor and thyroid cancer. While it provided only basic coverage, it did allow her to have the major surgeries she needed to live.

¹² U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, various years. Latest edition found here: http://www.census.gov/hhes/www/cpstables/032009/health/h05_000.htm.

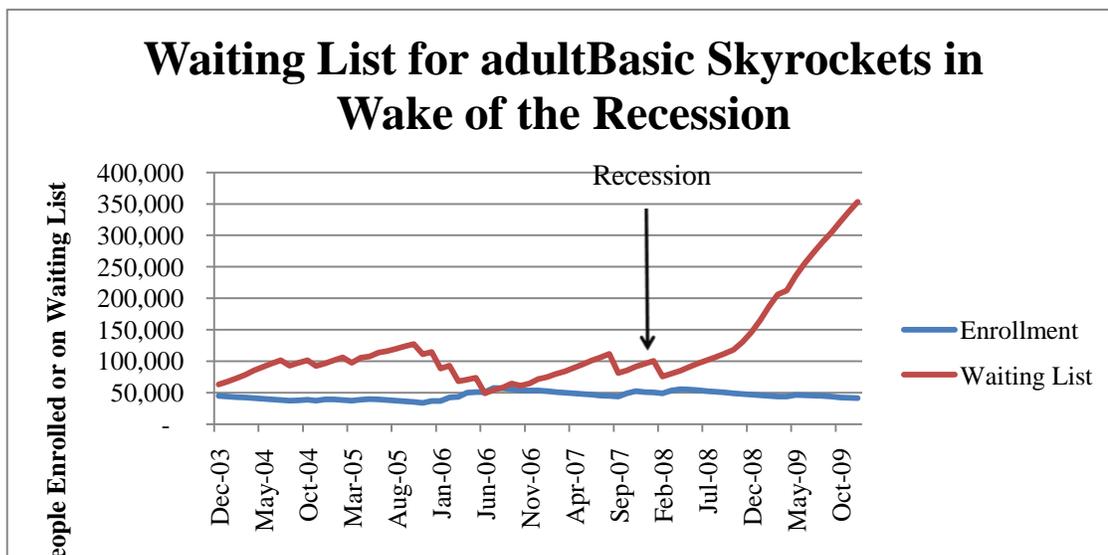
Many of the newly uninsured had lost coverage through an employer. From 2000-01 to 2007-08, Pennsylvania ranked second in the nation in the number of individuals (694,000) who had lost employment-based coverage.¹³

According to the 2008 Pennsylvania Health Insurance Survey, men were more likely to be uninsured than women. Typical working age Pennsylvanians (19-64) made up more than 85% of the state's uninsured population. Almost two-thirds (63%) of unemployed Pennsylvanians between 19-64 years of age currently work (a majority work full-time). The survey also found that the rate of uninsured varied from 7% in the Pittsburgh region to 9.6% in Northeastern Pennsylvania.¹⁴

Total demand for adultBasic, which can be seen in the size of the waiting list, has varied somewhat, due to economic conditions and available funding. Applicants began being placed on the adultBasic waiting list in March 2003. By December 2003, the waiting list numbered more than 63,000. The list grew to 127,430 by October 2005.

New funding in 2005-06 from the Community Health Reinvestment (CHR) Agreement increased enrollment to 50,000 people and helped reduce the waiting list until it briefly fell below the number of enrollees in June 2006.

The global recession, related job and income losses, and administrative program changes¹⁵ have significantly increased demand for adultBasic. In December 2007 (the official beginning of the recession in the United States), the adultBasic waiting list totaled 95,649. Two years later, as of December 2009, the size of the waiting list had exploded to 353,301 (see chart below). As of June 2010, the waiting list stands at 397,671.



Source. Pennsylvania Insurance Department, Annual Report to Legislature on adultBasic.¹⁶

¹³ Elise Gould, *Employer-Sponsored Health Insurance Erosion Continues*, The Economic Policy Institute, Briefing Paper #247, October 27, 2009, http://epi.3cdn.net/6356d48ae59f625af6_xxm6bnyn2.pdf.

¹⁴ Pennsylvania Insurance Department, 2008 Pennsylvania Health Insurance Survey, http://www.portal.state.pa.us/portal/server.pt/community/health_insurance/9189/chip_uninsured_survey_information/621124.

¹⁵ The Department of Public Welfare began automatically adding persons who were found to be ineligible for Medicaid but could qualify for adultBasic to the adultBasic waiting list. Prior to this, people would have to apply separately for the two health insurance programs.

¹⁶ Waiting list data not available on a monthly basis until the 2004 Annual Report. Total waiting list figures for January to May 2010 not currently available on the Pennsylvania Insurance Department's website.

One thing is clear; Pennsylvanians are increasingly turning to adultBasic, although few are able to be covered.

History of the Community Health Reinvestment Agreement

Pennsylvania's Blue Cross/Blue Shield plans (the Blues) were established under a 1938 statute as non-profit hospital and professional health services plans. They were deemed as "charitable and benevolent institutions" exempt from taxation by the state and its political subdivisions, and according to the Pennsylvania Insurance Commissioner, commonly recognized as insurers of last resort.¹⁷

Pennsylvania's first Community Benefit Agreement came in 1996, when two Pennsylvania Blues plans merged to become Highmark. As part of the approval process, the Insurance Commissioner required the combined company to annually contribute 1.25% of direct written premiums for charitable purposes.¹⁸ In 2003, Highmark reported \$93 million in community benefits pursuant to this requirement.

Starting in the late 1990s, Pennsylvania's media outlets and citizens alike noted the tremendous growth in the surpluses retained by the state's four Blue Cross/Blue Shield plans. This came in the context of rapidly increasing premiums, a swelling in the number of the uninsured, reduced federal support for public coverage programs and a weakened economy. Lawmakers and advocates charged that these four non-profit insurance companies were retaining excessive surpluses that could be better used to lower healthcare premiums or contributed to charitable endeavors.

The Pennsylvania Insurance Department was given the task of officially determining whether these surpluses were excessive. The Department requested that the Blues submit applications justifying their surpluses and the Blues agreed. However, they claimed that the state lacked the authority to set surplus limits and could instead only set minimums to help prevent financial failure.

On February 2, 2005, the Commonwealth and each of the Blues signed the six-year "Agreement on Community Health Reinvestment," or CHR, under which the Blues agreed to contribute a fixed amount toward programs that benefit local communities and improved healthcare. Beginning March 1, 2005, the Blues were required to make "Annual Community Health Reinvestment" expenditures. These payments would be equal to 1.6% of health premiums and 1.0% of Medicare/Medicaid premiums sold by the Blues, less any insurance premiums taxes paid by their for-profit subsidiaries.

Shortly following this signing, the Pennsylvania Insurance Commissioner officially deemed the Plans' surpluses not excessive (although three of the four companies had surpluses so large that they were prohibited from including a risk and contingency factor in their filed rates).

Later, the General Assembly agreed to direct a portion of the Plans' payments to fund the adultBasic program. This funding allowed adultBasic to increase the number of their enrollees and provide basic healthcare to tens of thousands of Pennsylvania residents. Their contributions to other healthcare-related community programs also provide invaluable services to many needy residents.

¹⁷ Kaiser Family Foundation.

¹⁸ The Lewin Group: *Considerations for Regulating Surplus Accumulation and Community Benefit Activities of Pennsylvania's Blue Cross and Blue Shield Plans*. Legislative Budget and Finance Committee, June 13, 2005 p.ii.

Meet the Blues

The four Pennsylvania Blues are individually operated licensees of the Blue Cross and Blue Shield Association. Incorporated as “non-profit hospital plans,” under Pennsylvania law, these companies are not subject to the state’s insurance premiums tax.¹⁹

The four Blue Cross/Blue Shield plans are “institutions of purely public charity” that qualify for tax exemption under the Pennsylvania Constitution, Article VIII, Sections 2(a)(i) and (a)(vi). To qualify as institutions of purely public charity, they must serve a charitable purpose and render substantial portions of their services for free or at greatly reduced subsidized prices, relieving the government of some of its burden.²⁰

Highmark and Independence Blue Cross are the largest of the Pennsylvania Blues, in terms of members, market share, and premiums. In total, the four companies collected \$22.3 billion in premiums in 2008, which account for 60% of the Pennsylvania health insurance market. (For a complete list of health insurers comprising 90% of the Pennsylvania health insurance market, see Appendix 3).

Company	Headquarters	Members	Premiums ²¹	Market Share
Blue Cross of Northeastern Pennsylvania (NE PA)	Scranton	600,000	\$874 million	2.4%
Capital Blue Cross	Harrisburg	1.3 million	\$2.0 billion	5.3%
Highmark, Inc.	Pittsburgh	4.7 million	\$10.1 billion	27.3%
Independence Blue Cross	Philadelphia	3.3 million ²²	\$9.4 billion	25.3%
PENNSYLVANIA TOTAL			\$22.3 billion	60.3%

Source. Company annual reports and the Pennsylvania Insurance Department.

Each of the Blues operates several subsidiary companies. Even though the parent is a non-profit, these subsidiaries may be non-profit or for-profit in nature and may be located in states other than Pennsylvania. Capital Blue Cross and Blue Cross of NE PA operate under less complicated corporate structures (nine and eleven subsidiaries, respectively), while Highmark (41) and Independence Blue Cross (45) have a much more complex web of subsidiaries.

Blues’ Surpluses and Profits Continue

Despite the annual Community Health Reinvestment payments, the accumulated surpluses for Highmark and Independence Blue Cross, the larger Blues in Pennsylvania, continue to grow. From 2002 to 2009, the cumulative

¹⁹ The Blues also operate for-profit subsidiaries and HMOs which are subject to tax in Pennsylvania.

²⁰ This standard was set forth by the Pennsylvania Supreme Court in Hospital Utilization Project v. Commonwealth of Pennsylvania, 487 A.2d 1315 (Pa. 1987).

²¹ Premiums and market share are as reported by group in the *2009 Pennsylvania Insurance Department Commissioner’s Annual Statistical Report*, 2008 Accident and Health Market Share, All Companies – by Group Code table found on pages 254-262. These include premiums from all subsidiaries (for-profit and non-profit) of the four companies.

²² 2.4 million are in local areas, according to Independence Blue Cross’ website.

surpluses of the four Blues insurers have increased from \$3.5 billion to \$5.6 billion.²³

As part of the Community Health Reinvestment agreement, the Pennsylvania Insurance Department monitors each Blue’s surplus and determines if it is adequate, too large or too small. To measure the size of each company’s surplus, the Department computes the surplus as a percentage of either the National Association of Insurance Commissioners (NAIC) Health Risk Based Capital (RBC) ratio or the consolidated risk factor ratio, whichever is the smaller percentage.²⁴

The Insurance Department found that Highmark had a healthy or “sufficient” surplus in 2009, meaning it cannot include contingency factors or potential risks in its premium rate changes (it cannot add a percentage to its rates specifically to add to its surplus).²⁵ The other Blues (Independence Blue Cross, Blue Cross of NE PA, and Capital Blue Cross) all had “efficient” surpluses – meaning their surpluses are large enough to absorb routine changes in rates of investment returns and underwriting losses.

Pennsylvania Insurance Department Rating System for Assessing Blues’ Surpluses

Rating	Ratios for Highmark and Independence Blue Cross	Ratios for Capital Blue Cross and Blue Cross of NE PA
Inefficient	Greater than 750%	Greater than 950%
Sufficient	550% to 750%	750% to 950%
Efficient	Lower than 550%	Lower than 750%

Source. Pennsylvania Insurance Department

These levels allow for surpluses that are much higher than minimum industry standards. The Blue Cross and Blue Shield Association, which licenses individual Blues across the U.S., recommends that members of the association maintain surpluses equal to at least 375% of RBC. If a company’s surplus falls below 200% of RBC, it would lose its

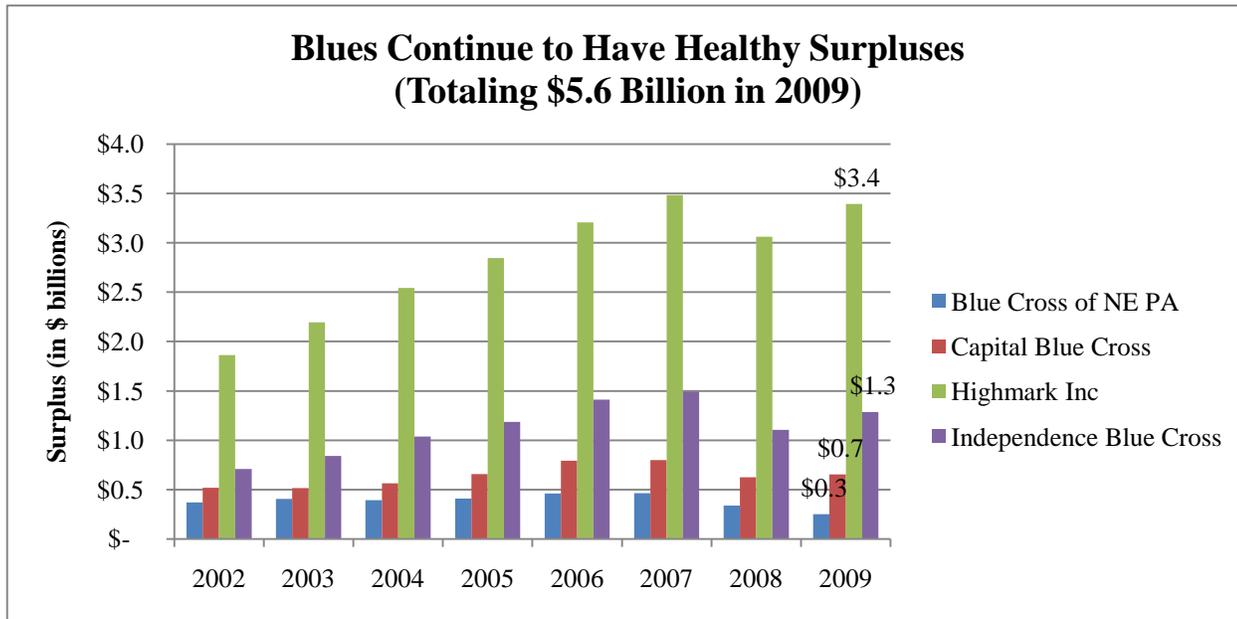
Mary H., a single mother with two young children, went on adultBasic when she and her son came down with Lyme Disease. Having adultBasic not only allowed her to receive needed treatment for the chronic disease, it gave her access to care so that a pre-cancerous condition of her cervix could be treated before it threatened her life. AdultBasic provided not only care, but peace of mind.

²³ Figures taken from parent company filings with the National Association of Insurance Commissioners (NAIC) for 2003 to 2009. While these are not the consolidated, company-wide surpluses, the parent company does tend to hold most of the group’s surplus. Consolidated financial data were not available for each company or year, so NAIC data were used instead.

²⁴ Pennsylvania Insurance Department, “Statement of Surplus Levels for Blue Cross and Blue Shield Plans - 2009,” http://www.portal.state.pa.us/portal/server.pt/document/856769/surplus_statement_2010_pdf_%282%29?qid=73440132&rank=1.

²⁵ According to a 2010 report from ConsumersUnion, health insurers often add an extra 1% to 6% to the cost of premiums to build surplus and weather financial uncertainty.

Blues' affiliation and would trigger state regulators to require increased reporting. Once the surplus falls below 100% of RBC, state regulators may take over the insurer.²⁶



Source. Company Annual Filings with the National Association of Insurance Commissioners (NAIC)

The Blues' surpluses have been growing because the health insurers, in general, have continued to be profitable. However, investment losses due to the recession and rising healthcare costs triggered net losses in three of the four Blues in 2009. Despite the losses, all three of the insurers were able to maintain adequate surpluses.

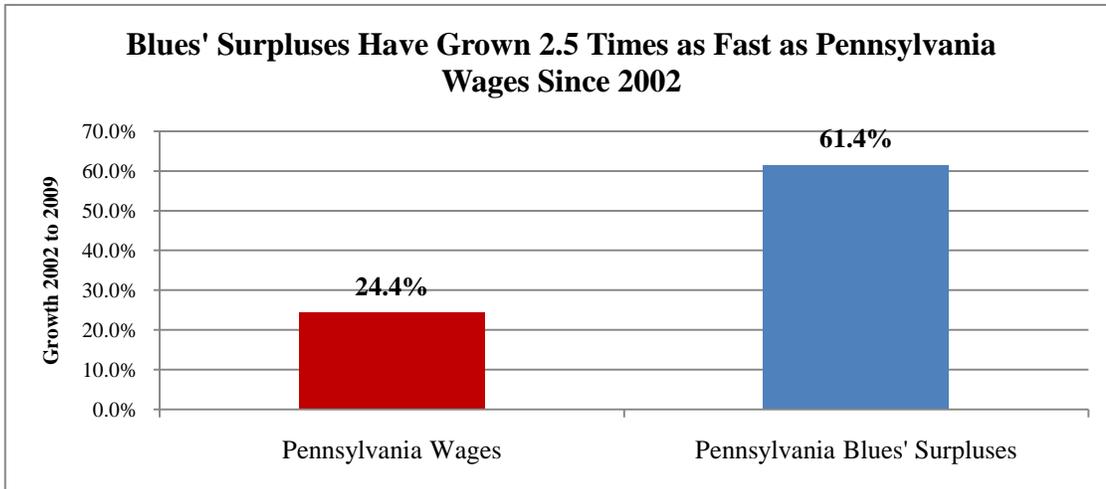
Pennsylvania Blues' Net Income (Loss)					
	2005	2006	2007	2008	2009
Independence Blue Cross	\$ 23,355,070	\$ 29,015,495	\$ 16,055,722	\$ 34,116,787	\$ (43,065,125)
Highmark	157,092,451	132,369,822	260,446,933	51,752,324	74,205,595
Blue Cross of NE PA	(12,060,465)	24,752,339	44,043,261	(4,427,080)	(59,535,036)
Capital Blue Cross	48,197,723	21,487,667	61,783,456	5,419,983	(44,168,578)

Source. Company 2009 Filings with the National Association of Insurance Commissioners (NAIC).

A recent report by ConsumersUnion (the organization that also publishes Consumer Reports) looked at ten Blue Cross/Blue Shield plans from across the nation, including Blue Cross of Northeastern Pennsylvania (NE PA). They found that from 2001 to 2009, these ten insurers saw their surpluses increase from 732% of RBC to 850%, despite falling investment income in recent years. Of these ten plans, Blue Cross of NE PA's surplus decreased the most going from 1,051% of Risk Based Capital in 2001 to 557% in 2009. Even with a reduction of almost half its percentage value, Blue Cross of NE PA's surplus was still far in excess of the 200% industry standard.²⁷

²⁶ ConsumersUnion, *How Much Is Too Much: Have Nonprofit Blue Cross Blue Shield Plans Amassed Excessive Amounts of Surplus?* July 2010, http://www.prescriptionforchange.org/pdf/prescriptionforchange.org-surplus_report.pdf.

²⁷ ConsumersUnion, *How Much Is Too Much: Have Nonprofit Blue Cross Blue Shield Plans Amassed Excessive Amounts of Surplus?* July 2010, http://www.prescriptionforchange.org/pdf/prescriptionforchange.org-surplus_report.pdf.



Sources. Annual company filings with the NAIC and U.S. Bureau of Labor Statistics.

The Blues' surpluses have been growing more than two-and-a-half times faster than wages in Pennsylvania in recent years. From 2002 to 2009, the four Blues saw their surpluses grow from \$3.5 billion to \$5.6 billion, an increase of 61.4%. Over the same period, Pennsylvanians saw their wages grow by 24.4%.²⁸

Funding adultBasic

State funding of the adultBasic program began on July 1, 2002, using dollars from the state's Tobacco Settlement Fund. Tobacco settlement dollars were the sole source of funding for the program until 2005-06. During this period, annual funding ranged from \$98 million to \$112 million, and the program had between 34,000 and 43,000 enrollees. By 2004-05, more than one-quarter of Tobacco Settlement Fund dollars went to the adultBasic program.

AdultBasic Funding by Source, 2002-03 to present (in millions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 ²⁹
Tobacco Settlement Fund	\$97.5	\$112.1	\$103.1	\$74.3	\$61.6	\$49.9	\$38.8	\$37.9	\$15.6
Community Health Reinvestment (Payments from the Blues)	\$0	\$0	\$0	\$59.2	\$95.0	\$109.0	\$126.3	\$125.2	\$183.6
Total adultBasic Funding	\$97.5	\$112.1	\$103.1	\$133.5	\$156.6	\$158.9	\$165.1	\$163.1	\$199.2

Source. Governor's Executive Budgets, 2004-05 to 2010-11.

Beginning in 2005-06, the financial responsibility for funding adultBasic began to shift away from the Tobacco Settlement Fund. Community Health Reinvestment payments from the Blues allowed the Commonwealth to increase total funding and enrollment in adultBasic. In 2005-06, a larger share of Tobacco Settlement Funds were redirected from adultBasic to the Medical Assistance for Workers with Disabilities program (MAWD), which helps subsidize

²⁸ U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Pennsylvania wages (all industries, total wages, all establishment sizes) (accessed July 27, 2010), <http://data.bls.gov/cgi-bin/dsrv?en>.

²⁹ Governor's Budget projections for 2010-11 assume Community Health Reinvestment payments from the Blues will continue after 2010. If the Community Health Reinvestment payments are permitted to expire, 92% of the funding for adultBasic will be eliminated beginning in January 2011.

health insurance for working people with disabilities who have incomes up to 250% of poverty.³⁰ The MAWD program is matched with federal Medicaid dollars, which allows for additional enrollment with non-state dollars. In 2008-09, MAWD covered 13,500 individuals and drew down \$56 million in federal Medicaid funds.³¹

As the amount of funding for adultBasic increased, so did the number of enrollees. From 2004-05 to 2007-08, the number of participants in adultBasic increased from 40,800 to 54,100.

Summary of Blues Community Health Reinvestment Expenditures

The Community Health Reinvestment (CHR) Agreement between the Blues and the Commonwealth requires each plan to calculate a minimum CHR contribution each year, based on their previous business.

Total CHR payments are calculated by taking 1.6% of regular health premiums and 1% of Medicare and Medicaid premiums, less premiums taxes, credits, and other adjustments.

However, the yearly CHR payment is capped at 107.5% of the previous year's contribution, limiting the funding change from year-to-year. Companies pay the lesser of the yearly calculated amount based on a percentage of premiums and the capped amount based on the prior year payment. The 107.5% cap can have a significant effect on the amount of required CHR expenditures a company must make. From 2007 to 2009, both Highmark and Capital Blue Cross paid only the capped amounts, which reduced the companies required contributions by a total of \$30.5 million.

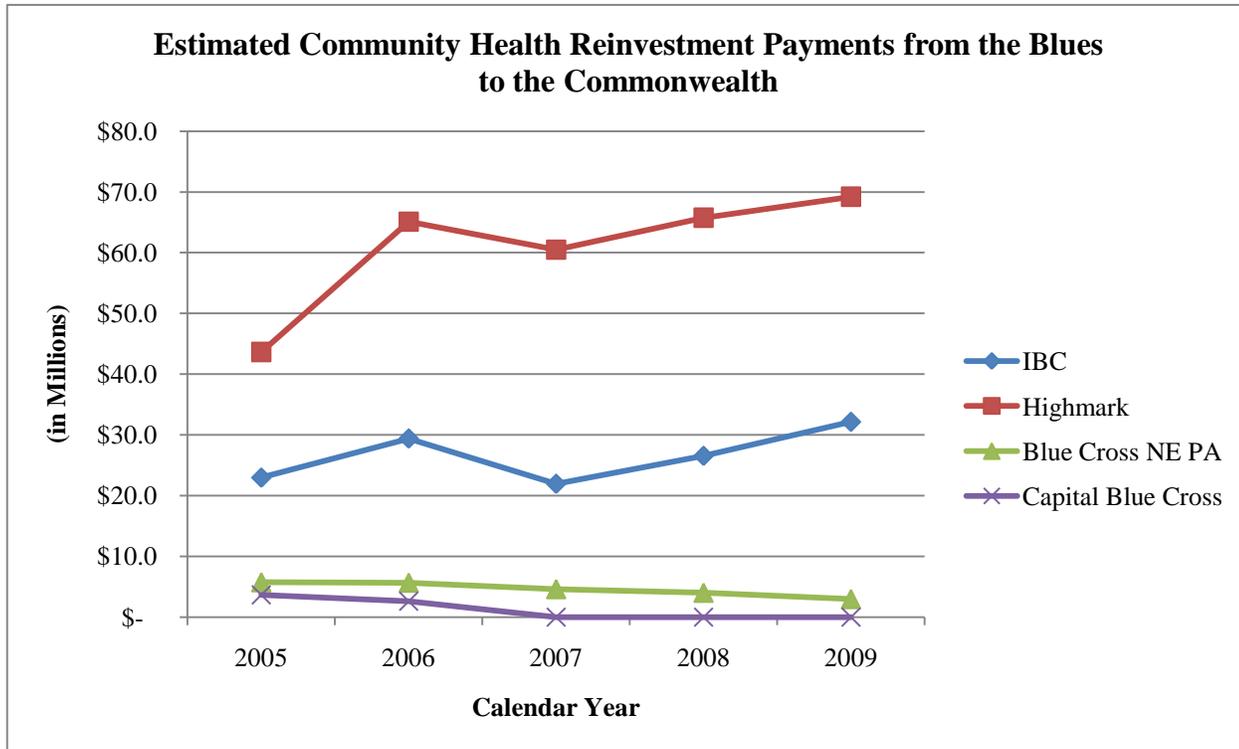
Generally, 60% of the yearly CHR contribution is directed to the Commonwealth to be used to finance adultBasic, while the company invests the remaining 40% in grants, rate subsidies, and other uses approved each year by the Pennsylvania Insurance Department.

The Community Health Reinvestment Agreement also includes a provision to ensure that the contribution to the Commonwealth does not decrease significantly from one year to the next. If a company's premiums used to calculate the CHR decrease from the previous year to the point that the total calculated CHR (100%) in the current year is less than the dollar value of the 60% share that was paid to the Commonwealth in the prior year, then the entire calculated amount of CHR investment would be paid to the Commonwealth to support adultBasic, rather than being split 60/40 with required company-directed community spending. This occurred with Blue Cross of NE PA in 2008 and 2009, where its entire CHR was paid to the Commonwealth. Even though the company was not required to contribute any funds to the community under the CHR, it did so anyway, contributing more than \$10 million in both years.

"I had adultBasic for about six years after being on the waiting list. I was very fortunate. If it wasn't for adultBasic, I wouldn't have had insurance as a divorced woman struggling financially... As a resident of our Commonwealth, I'd like to see people have adultBasic and be covered. It is a wonderful, life-saving program. DO NOT DROP IT!" –Freddie C.

³⁰ Pennsylvania Department of Public Welfare, "Medical Assistance for Workers with Disabilities," (accessed July 27, 2010) <http://www.dpw.state.pa.us/servicesprograms/medicalassistance/003670301.htm>.

³¹ Commonwealth of Pennsylvania, *2010-11 Governor's Executive Budget*, February 2010.



Source. Annual company proposals for CHR expenditures, 2005 to 2009.

The chart above shows the 60% share of the CHR payment that has been sent to the Commonwealth to fund adultBasic since 2005.³² Of the Blues, Highmark makes the largest yearly contribution. In 2009, their planned expenditure accounted for 66% of the total. Capital Blue Cross has not been required to make an annual payment to the Commonwealth since 2006, due to an overpayment made that year and state income taxes paid on their Keystone HeathPlan Central subsidiary.³³

	Payments to Commonwealth to Fund adultBasic (60% of CHR)	Proposed Company Directed Expenditures (meets or exceeds 40% of CHR)	Total 2009 CHR Expenditures
Highmark	\$ 69,214,067	\$ 90,800,000	\$ 160,014,067
Independence Blue Cross	\$ 32,151,200	\$ 47,300,000	\$ 79,451,200
Capital Blue Cross	\$ -	\$ 633,360	\$ 633,360
Blue Cross of Northeastern PA	\$ 2,964,320	\$ 10,200,000	\$ 13,164,320

Source. Annual company proposals for CHR expenditures, 2009.

The Blues are allowed to direct, with Insurance Department approval, how the remaining required 40% of the CHR payment is spent. These dollars go toward “other community health related endeavors” and are left to each company’s discretion. According to CHR plans filed with the Insurance Department, these expenditures include:

³² Community Health Reinvestment payments to the Commonwealth are estimates based on company CHR plans filed at the end of the previous calendar year. The plans are archived on the Pennsylvania Insurance Department’s website: http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/blue_community_health_reinvestment_applications/623157.

³³ Capital Blue Cross, “2010 CHR Application,” http://www.portal.state.pa.us/portal/server.pt/document/856762/cbc_chr_app_2010_pdf.

- Rate subsidies for non-group health insurance products for low-income individuals, children, and seniors;
- Offsetting underwriting losses from these products;
- Funding for flu shots, health screenings, and other community outreach programs;
- Scholarships for training nurses;
- Medical school improvements;
- Donations to health-related non-profits in the area.

For a more detailed list of other CHR community health related expenditures by year and by insurer, please see Appendix 4.

The required accounting for company-directed CHR expenditures became more stringent with the passage of Act 62 of 2008. The Act requires the Blues to submit annual documentation of proposed charitable contributions in accordance with the Community Health Reinvestment Agreement. Proposals must include anticipated expenditures, and amounts expended for each of the allowable purposes during the next fiscal year (the CHR agreement requires contributions calculated by calendar year). Proposals from each plan are due to the Pennsylvania Insurance Department by March 30 of every year for the duration of the agreement (currently 2010). These plans are then approved or sent back to the companies for revision.

A large factor in the creation of Act 62 was ongoing speculation that the Blues engaged in creative bookkeeping – disguising typical company expenses as “charitable contributions” in their obligations to the CHR agreement. Section 2501 of the Act describes valid and invalid community health reinvestment activities. Acceptable activities include funding, subsidization or provision of healthcare coverage for people unable to pay for coverage, healthcare services for those who are uninsured or unable to pay, and programs for the prevention and treatment of disease and injury. Unacceptable activities include expenditures for advertising or public relations, sponsorships, bad debt, programs provided as an employee benefit, and many others.³⁴

The initial reports required under Act 62 (for fiscal year 2009-10) have provided more detail on how CHR expenditures are being directed.

In 2009-10, the four Blues planned to spend more than \$136 million, or 74% of the total amount designated for programs aimed at improving community health, on write-offs of rate subsidies or underwriting losses incurred on individual policies, CHIP, Special Care, and other products the plans offered. Individually, Independence Blue Cross spent 76%, Highmark 90%, Capital Blue Cross 75%, and Blue Cross of NE PA 26% of their company-directed donations on such write-offs, in essence, reimbursing themselves, rather than putting dollars into the community.

The total amount the four Plans spent on charitable organizations was just under \$49 million, or 26% of the total stipulated by the CHR agreement, in the 2009-10 fiscal year. Independence Blue Cross’s charitable expenditures totaled \$11.3 million for the Charitable Medical Grant Program, the Pennsylvania Chronic Care Commission and Health eTools for Schools. Highmark donated a total of \$8.4 million to organizations that address health disparities and chronic diseases, as well as programs that provide health screenings and influenza shots for seniors. Capital Blue Cross donated \$4.6 million to programs that provide health services such as community health clinics, health fairs, and non-profit community organizations such as the Pennsylvania Breast Cancer Coalition.

³⁴ Pennsylvania Insurance Department, “Act 62: Community Health Reinvestment Activities,” http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/act_62_community_health_reinvestment_activities/621312.

Blue Cross of NE PA had the largest share of community donations. This is because of a pledge of \$23 million (the vast majority of its total \$24.6 million community health contributions) to the newly created Commonwealth Medical College in Scranton, Pennsylvania.

Conclusions and Recommendations

Maintaining Health Insurance for adultBasic enrollees is good for Pennsylvania.

Lack of health insurance is both an individual problem and a source of concern for all Pennsylvanians. Individuals who lack insurance do not have access to preventive care and are forced to delay treatment for illnesses and disease. When they do seek treatment, they are sicker and their healthcare costs are higher. They pay for treatment out of their own pockets, which creates a tremendous financial burden for themselves and their families. It is no wonder that most individual bankruptcies in the U.S. prior to the recession were healthcare related. And each day, two working-age Pennsylvanians die due to lack of health insurance.³⁵

The insured pay the cost of medical care for the uninsured through our premiums. According to Families USA, Pennsylvanians pay a “hidden healthcare tax” of \$1,017 annually for the medical costs of the uninsured.³⁶ Pennsylvania’s hospitals provide charity care to make up for the amount that uninsured patients are unable to pay, and every Pennsylvanian contributes to hospital treatment for the uninsured through our tax dollars.

The Patient Protection and Affordable Care Act will significantly reduce the ranks of the uninsured, beginning in three years. Many of the uninsured, particularly childless adults, will be eligible for Medicaid, while those with incomes up to 400% of the federal poverty level, about \$80,000 for a family of four, will be able to find private insurance on a newly created healthcare exchange and will be eligible for tax credits to make premiums more affordable. *Meanwhile, we need an effective bridge to get people to these new programs.*

The Economic Climate for Pennsylvania’s Blue Cross/Blue Shield Plans Will Continue to be Favorable

Federal healthcare reform will provide an estimated 32 million people with access to private health insurance offered by insurance companies like the non-profit Blue Cross/Blue Shield plans, and commercial insurers like Aetna and UnitedHealth. All of these companies will have access to a gigantic new market of customers, and are likely to profit significantly from this expansion. With 60% of the market, Pennsylvania’s Blues are well positioned to capture much of this growth.

With the exception of 2009, all of the Blue Cross/Blue Shield plans have had increased revenue, despite the national recession. Highmark had an operating profit in 2009. All of the companies, with the exception of Capital Blue Cross, have added to their reserves since 2005.

The conditions today are much like those that existed in 2005. Premiums for small businesses and individuals have continued to increase, as have overall surpluses and executive salaries. Consumers and lawmakers have a right to question the decision to build surpluses and increase executive compensation while thousands have been losing insurance coverage.

³⁵ Families USA, *Dying for Coverage in Pennsylvania*, March 2008, <http://www.familiesusa.org/assets/pdfs/dying-for-coverage/pennsylvania.pdf>

³⁶ Families USA, *Hidden Health Tax: Americans Pay a Premium*, May 2009, <http://www.familiesusa.org/assets/pdfs/hidden-health-tax.pdf>.

Unlike many states, Pennsylvania's Blues were created by statute, which specifically establishes the parent companies' charitable mission. The public and policymakers have a right to question whether the companies have strayed from this mission, and have used their non-profit status to build surpluses that have been used for mergers and acquisitions, rather than for policyholders and the public.

Recommendations:

- **Pennsylvania's Blue Cross/Blue Shield plans should agree to extend the CHR agreement through December 2013 at a contribution level that, at the very least, continues enrollment at the current 46,000 person level.** The Pennsylvania Insurance Department and other parties are currently in negotiation with the four Blues plans to determine the fate of the program. The Blues should agree soon to continue the program, in order to relieve the fear and uncertainty of enrollees over potential loss of coverage.
- **The Pennsylvania General Assembly should enact HB 2455, which will establish the CHR agreement in statute.** Pennsylvania lawmakers should make clear to the public that they stand with the individuals who rely upon adultBasic.
- **The Pennsylvania Insurance Department should revisit its standards for evaluating and approving surpluses.** As the recent report by ConsumersUnion notes, both the standards established by the Blue Cross/Blue Shield Association and the National Association of Insurance Commissioners (NAIC) may be too high and may overstate the amount that is required to protect the insurers from unexpected costs or down markets.

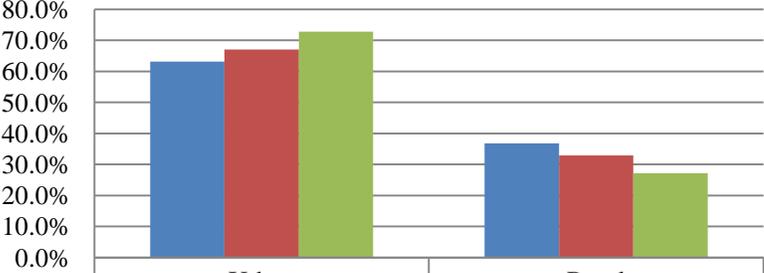
Appendix 1: AdultBasic Enrollment by County

County Enrollment in adultBasic, June 2010			
ADAMS	209	LACKAWANNA	722
ALLEGHENY	4,655	LANCASTER	905
ARMSTRONG	448	LAWRENCE	545
BEAVER	771	LEBANON	211
BEDFORD	448	LEHIGH	846
BERKS	674	LUZERNE	1,128
BLAIR	633	LYCOMING	351
BRADFORD	343	MCKEAN	249
BUCKS	1,640	MERCER	517
BUTLER	879	MIFFLIN	244
CAMBRIA	1,005	MONROE	707
CAMERON	33	MONTGOMERY	2,228
CARBON	325	MONTOUR	31
CENTRE	343	NORTHAMPTON	517
CHESTER	859	NORTHUMBERLAND	389
CLARION	214	PERRY	109
CLEARFIELD	643	PHILADELPHIA	6,897
CLINTON	150	PIKE	294
COLUMBIA	198	POTTER	143
CRAWFORD	476	SCHUYLKILL	468
CUMBERLAND	428	SNYDER	158
DAUPHIN	401	SOMERSET	681
DELAWARE	1,942	SULLIVAN	43
ELK	197	SUSQUEHANNA	283
ERIE	1,477	TIOGA	286
FAYETTE	1,037	UNION	96
FOREST	40	VENANGO	348
FRANKLIN	262	WARREN	243
FULTON	51	WASHINGTON	913
GREENE	199	WAYNE	311
HUNTINGDON	244	WESTMORELAND	2,028
INDIANA	525	WYOMING	142
JEFFERSON	315	YORK	706
JUNIATA	124	TOTAL	45,927

Source: Pennsylvania Insurance Department

(http://www.portal.state.pa.us/portal/server.pt/document/744325/ab_enrollment_pdf).

Larger Share of adultBasic Enrollees are in Rural Areas

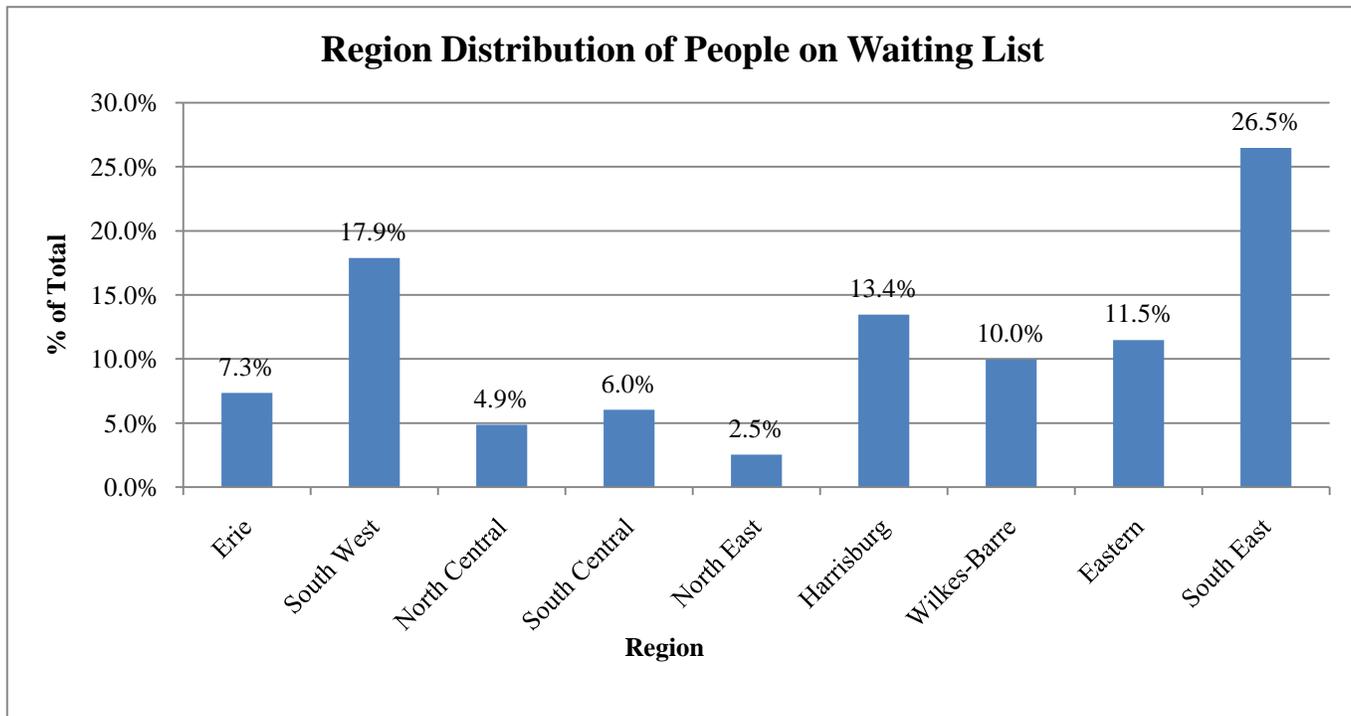


	Urban	Rural
■ Enrollment	63.2%	36.8%
■ Waiting List	67.1%	32.9%
■ Total Population	72.8%	27.2%

Sources. U.S. Census and Pennsylvania Insurance Department

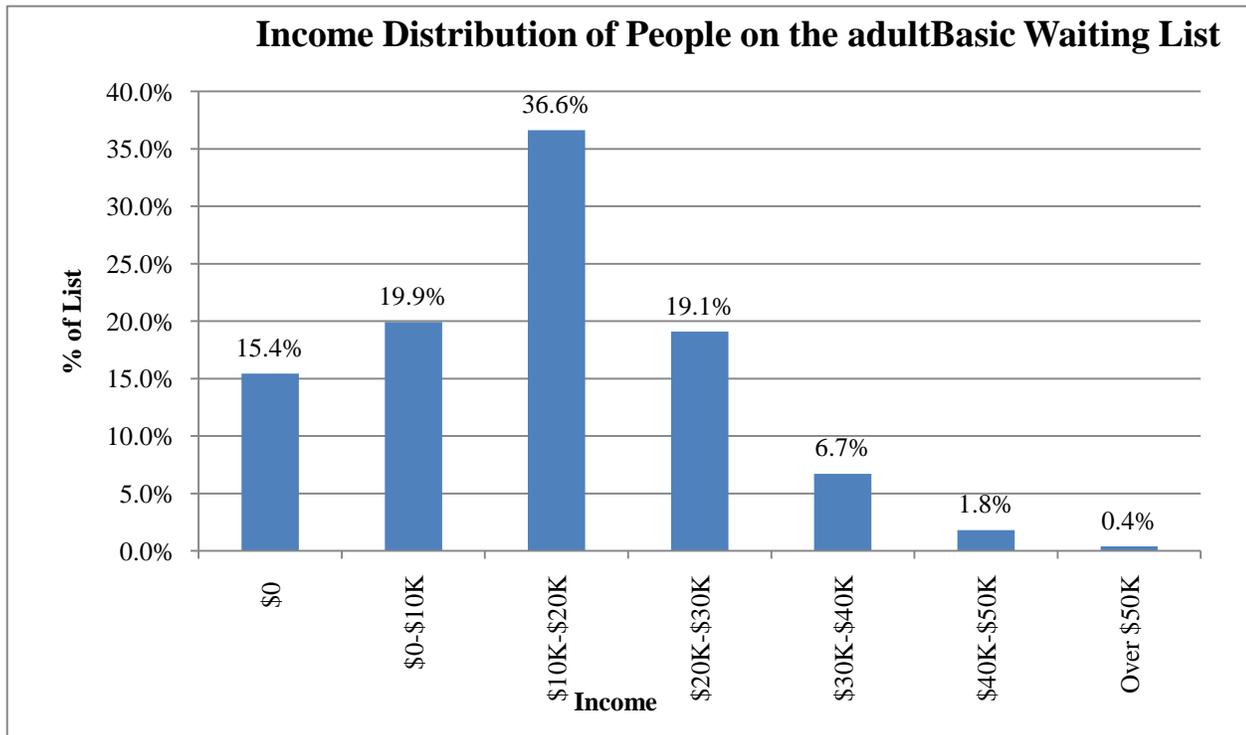
The figure above shows that a higher proportion of adultBasic enrollees live in rural Pennsylvania counties, as compared to people on the waiting list and the general population. (Rural and urban counties are determined using Center for Rural Pennsylvania guidelines and total Pennsylvania population includes all age groups.)

Appendix 2: Waiting List Demographics (June 2010)



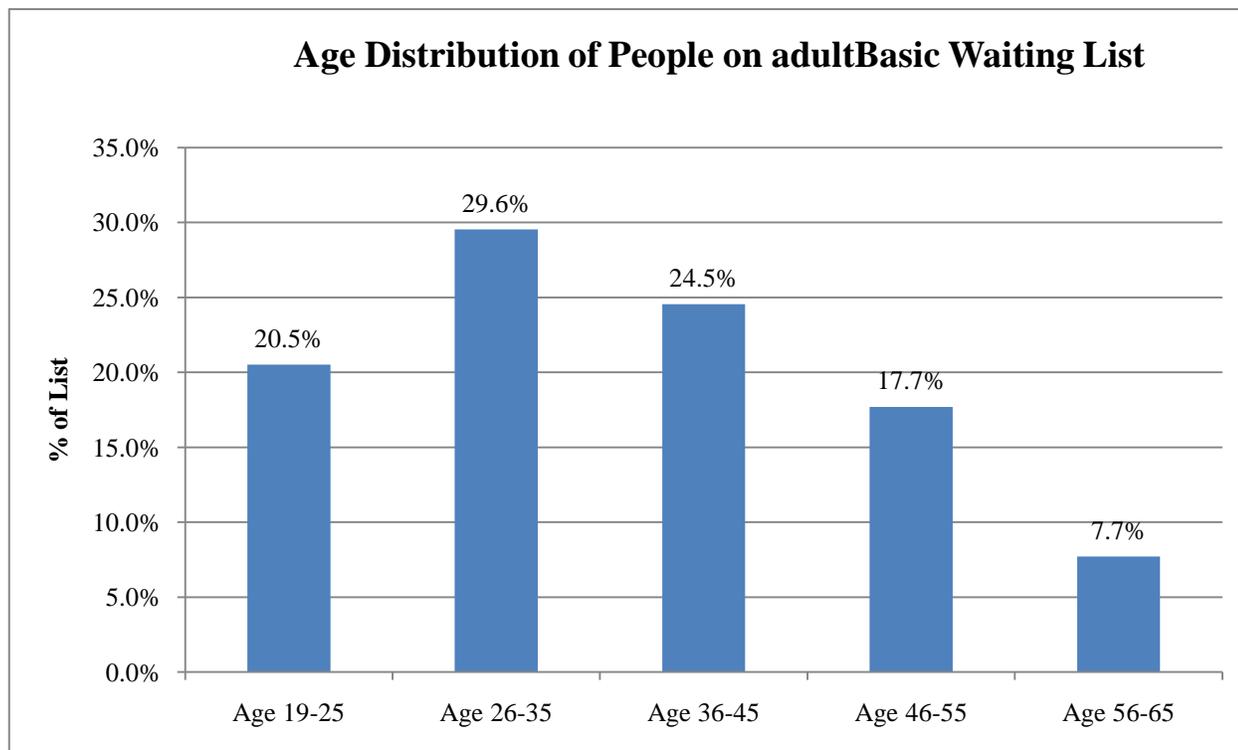
Source. Pennsylvania Insurance Department tabulation of adultBasic demographic data

Similar to those enrolled in the program, the largest waiting lists are in the South East and South West regions. An interesting note is that while the Harrisburg and Eastern regions have conspicuously low adultBasic enrollment rates proportional to their populations, both have much larger waiting lists.



Source. Pennsylvania Insurance Department tabulation of adultBasic demographic data.

The distribution of people on the adultBasic waiting list based on income is very similar to those enrolled in the program. Again, the bulk of the demand, a staggering 91%, for adultBasic comes from people earning less than \$30,000 per year.



Source. Pennsylvania Insurance Department tabulation of adultBasic demographic data

Age is the only demographic in which the enrollment and waiting list graphs are markedly different; they are almost mirror-images. With 33% of total enrollees in the 46-55 age bracket and only 17.7% of people in that same bracket on the waiting list, the program does not have an even distribution of enrollees across all eligible age brackets. While no investigative analyses have been performed to determine the differences between the ages of the waiting list and enrollees, it may be due in part to differences in economic conditions when people either began being covered by adultBasic or joined the waiting list. Most people in the program have been enrolled since 2007, prior to the recession. Conversely, most people on the waiting list joined during the economic downturn.³⁷

³⁷ Electronic correspondence between the authors and the Pennsylvania Insurance Department, July 26, 2010.

Appendix 3: 2008 Pennsylvania Health Insurance Market Share by Company Group

Rank	Company Group	Direct Premiums Written (in \$ thousands)	Market Share	Cumulative Market Share
1	Highmark	\$10,124,040	27.3%	27.3%
2	Independence Blue Cross	\$9,356,076	25.3%	52.6%
3	Aetna	\$2,339,158	6.3%	58.9%
4	Coventry	\$2,058,419	5.6%	64.5%
5	UPMC Health System	\$2,037,260	5.5%	70.0%
6	Capital Blue Cross	\$1,970,315	5.3%	75.3%
7	UnitedHealth	\$1,808,222	4.9%	80.1%
8	Geisinger Insurance	\$962,367	2.6%	82.7%
9	Blue Cross of NE PA	\$873,531	2.4%	85.1%
10	Health Partners of Philadelphia	\$641,842	1.7%	86.8%
11	Bravo Health Inc.	\$554,414	1.5%	88.3%
12	FHC Health Services, Inc.	\$295,950	0.8%	89.1%
13	Magellan Health Services, Inc.	\$287,805	0.8%	89.9%
14	Humana	\$ 280,915	0.8%	90.7%
15-237	All Others	\$3,457,142	9.3%	100.0%
	Total for Pennsylvania	\$37,047,456	100.0%	
	Blues Total	\$22,323,962	60.3%	

Source. Pennsylvania Insurance Department 2009 Commissioner's Annual Statistical Report, 2008 Accident and Health Market Share, Line of Business: Accident and Health, All Companies – by Group Code, pages 254-262.

Appendix 4: Planned Community Health Reinvestment by Company

Independence Blue Cross Planned Community Health Reinvestment Expenditures					
	2005	2006	2007	2008	2009
Lesser of Capped or Calculated CHR	\$ 38,264,833	\$ 52,473,000	\$ 50,076,000	\$ 56,725,000	\$ 61,252,000
CHR Agreement Commonwealth Directed Portion: adultBasic (60% of CHR)	\$ 22,958,900	\$ 31,483,800	\$ 30,045,600	\$ 34,035,000	\$ 36,751,200
Less: Credit for adultBasic Underwriting Losses		\$ (2,081,581)	\$ (4,600,000)	\$ (9,240,000)	\$ (4,600,000)
Adjustment (from prior year)			\$ (3,500,000)	\$ 1,750,000	
Estimated CHR Liability to Commonwealth	\$ 22,958,900	\$ 29,402,219	\$ 21,945,600	\$ 26,545,000	\$ 32,151,200
Required Other Community Health Related Expenditures (40% of CHR)	\$ 15,305,933	\$ 20,989,200	\$ 20,030,400	\$ 22,690,000	\$ 24,500,000
Breakdown of Proposed Other Community Health Related Expenditures (Company directed)					
CHIP					
Subsidies for Special Care and other Non-group products	\$ 20,400,000	\$ 19,000,000	\$ 35,000,000	\$ 38,000,000	\$ 40,000,000
Charitable Medical Care Grant Program	\$ 1,250,000	\$ 1,900,000	\$ 2,000,000	\$ 26,000,000	\$ 2,300,000
Nurse Scholars Program	\$ 830,000	\$ 1,050,000	\$ 1,500,000	\$ 1,000,000	\$ 1,000,000
Administrative subsidy to social mission and contribution to Our Caring Foundation	\$ 2,200,000	\$ 3,600,000	\$ 4,800,000	\$ 2,700,000	\$ 3,000,000
Contributions and sponsorships to various orgs whose purpose is healthcare related	\$ 1,000,000	\$ 2,100,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Proposed Company Directed Total	\$ 25,680,000	\$ 27,650,000	\$ 44,300,000	\$ 68,700,000	\$ 47,300,000
PROPOSED TOTALS	\$ 48,638,900	\$ 57,052,219	\$ 66,245,600	\$ 95,245,000	\$ 79,451,200
REQUIRED TOTALS	\$ 38,264,833	\$ 50,391,419	\$ 41,976,000	\$ 49,235,000	\$ 56,651,200

Note: Act 62 of 2008 requires that more detailed expenditures be compiled by fiscal year beginning 2009-10. This schedule reflects the original, less stringent standard.

The 2010 planned expenditures for IBC have yet to be approved by the Insurance Department.

Highmark Planned Community Health Reinvestment Expenditures

	2005	2006	2007	2008	2009	2010
Estimate of Community Health Reinvestment (CHR) before Credits	\$ 92,652,519	\$121,795,367	\$ 115,473,830	\$ 127,944,001	\$ 130,090,325	\$ 132,736,882
Less: Credit for Premium Taxes	\$ (2,740,419)	\$ (5,300,162)	\$ (8,566,631)	\$ (8,173,059)	\$ (9,694,783)	\$ (11,758,527)
Community Health Reinvestment (100%)	\$ 89,912,100	\$116,495,205	\$ 106,907,199	\$ 119,770,942	\$ 120,395,542	\$ 120,978,355
Capped CHR (107.5% of prior year CHR)		\$ -	\$ 100,825,889	\$ 109,593,262	\$ 115,356,778	\$ 124,008,536
Lesser of Capped or Calculated CHR	\$ 89,912,100	\$116,495,205	\$ 100,825,889	\$ 109,593,262	\$ 115,356,778	\$ 120,978,355
CHR Agreement Commonwealth Directed Portion: adultBasic (60% of CHR)	\$ 53,947,260	\$ 69,897,123	\$ 60,495,533	\$ 65,755,957	\$ 69,214,067	\$ 72,587,013
Less: adultBasic Underwriting Losses	\$ (10,300,000)	\$ (4,800,000)				
Estimated CHR Liability to Commonwealth	\$ 43,647,260	\$ 65,097,123	\$ 60,495,533	\$ 65,755,957	\$ 69,214,067	\$ 72,587,013
Required Other Community Health Related Expenditures (40% of CHR)	\$ 35,964,840	\$ 46,598,082	\$ 40,330,356	\$ 43,837,305	\$ 46,142,711	\$ 48,391,342
Breakdown of Proposed Other Community Health Related Expenditures (Company directed)						
Projected uncompensated indirect costs on adultBasic program	\$ 9,600,000	\$ 4,500,000	\$ 4,500,000	\$ 4,400,000	\$ 3,800,000	\$ 4,000,000
Underwriting losses and rate subsidies for low-income children and senior programs (CHIP, Caring Program, Special Care, Direct Pay, HCTC, and HIPAA)	\$ 57,600,000	\$ 70,700,000	\$ 74,500,000	\$ 54,500,000	\$ 78,100,000	\$ 68,100,000
Projected grants and donations that support improving health in PA and addressing issues like health disparities, chronic diseases, health screenings, community health initiatives and flu shots for seniors	\$ 13,700,000	\$ 13,800,000	\$ 8,400,000	\$ 6,400,000	\$ 8,900,000	\$ 9,200,000
Proposed Company Directed Total	\$ 80,900,000	\$ 89,000,000	\$ 87,400,000	\$ 65,300,000	\$ 90,800,000	\$ 81,300,000
PROPOSED TOTAL	\$ 124,547,260	\$154,097,123	\$ 147,895,533	\$ 131,055,957	\$ 160,014,067	\$ 153,887,013
REQUIRED TOTAL	\$ 79,612,100	\$111,695,205	\$ 100,825,889	\$ 109,593,262	\$ 115,356,778	\$ 120,978,355

Note: Act 62 of 2008 requires that more detailed expenditures be compiled by fiscal year beginning 2009-10. This schedule reflects the original, less stringent standard.

Blue Cross of Northeastern PA Planned Community Health Reinvestment Expenditures

	2005	2006	2007	2008	2009	2010
Estimate of Community Health Reinvestment (CHR) before Credits		\$ 9,614,000	\$ 9,420,000	\$ 9,377,000	\$ 8,924,000	\$ 8,176,000
Less: Credit for Premium Taxes		\$ 175,000)	\$ (1,485,000)	\$ 5,374,000)	\$ (5,960,000)	\$ (5,811,000)
Community Health Reinvestment (100%)	\$ -	\$ 9,439,000	\$ 7,935,000	\$ 4,003,077	\$ 2,964,000	\$ 2,365,000
Floor CHR (95% of prior year CHR)	\$ -	5,791,570	\$ 5,380,000	\$ 3,612,777	\$ 3,802,923	\$ 2,816,104
Lesser of Capped or Calculated CHR	\$ 9,562,500	\$ 9,439,000	\$ 5,380,000	\$ 4,003,077	\$ 2,964,320	\$ 2,365,000
CHR Agreement Commonwealth Directed portion: Adult Basic (60% of CHR)	\$ 5,737,500	\$ 5,663,400	\$ 5,380,000	\$ 4,003,077	\$ 2,964,320	\$ 2,365,000
Less: Negotiated Credit for AdultBasic losses	\$ -	\$ -	\$ (780,000)			
Estimated CHR Liability to Commonwealth	\$ 5,737,500	\$ 5,663,400	\$ 4,600,000	\$ 4,003,077	\$ 2,964,320	\$ 2,365,000
Required Other Community Health Related Expenditures (40% of CHR)	\$ 3,825,000	\$ 3,775,600	\$ 2,555,000	\$ -	\$ -	\$ -

Breakdown of Other Community Health Related Expenditures (Company directed)

Subsidy of health insurance for individuals not covered under group products	\$ 10,696,000	\$ 7,958,765	\$ 12,250,000	\$ 14,300,000	\$ 10,200,000	\$ 12,000,000
Access to Care Grants for the Un/Underinsured		*	*	*	*	*
Health and Wellness Impact Grants and Health and Wellness Mini-Grants		*	*	*	*	*
Health eTools for Schools Program		*	*	*	*	*
The LifeCenter, a retail health and wellness storefront		*	*	*	*	*
Nurse Scholarship and Nurse Faculty Line Programs		*	*	*	*	*
Commonwealth Medical College					*	*
Proposed Company Directed Total	\$ 10,696,000	\$ 7,958,765	\$ 12,250,000	\$ 14,300,000	\$ 10,200,000	\$ 12,000,000

PROPOSED TOTALS:	\$ 16,433,500	\$ 13,622,165	\$ 16,850,000	\$ 18,303,077	\$ 13,164,320	\$ 14,365,000
REQUIRED TOTALS:	\$ 9,562,500	\$ 9,439,000	\$ 7,155,000	\$ 4,003,077	\$ 2,964,320	\$ 14,365,000

* Estimates of specific grants not available from report.

Note: Act 62 of 2008 requires that more detailed expenditures be compiled by fiscal year beginning 2009-10. This schedule reflects the original, less stringent standard.

Capital Blue Cross Planned Community Health Reinvestment Expenditures

	2005	2006	2007	2008	2009	2010
Estimate of Community Health Reinvestment (CHR) before Credits	\$ 26,438,635	\$ 30,823,952	\$ 28,102,950	\$ 30,407,406	\$ 31,231,138	\$ 30,070,098
Less: Credit for Premium Taxes	\$(20,341,656)	\$(23,993,000)	\$(23,797,000)	\$(25,527,000)	\$(26,882,000)	\$(23,543,000)
Community Health Reinvestment (100%)	\$ 6,096,979	\$ 6,830,952	\$ 4,305,950	\$ 4,880,406	\$ 4,349,138	\$ 6,527,098
Capped CHR (107.5% of prior year CHR)			\$ 1,282,716	\$ 1,472,931	\$ 1,583,400	\$ 1,702,155
Lesser of Capped or Calculated CHR	\$ 6,096,979	\$ 6,830,952	\$ 1,282,716	\$ 1,472,931	\$ 1,583,400	\$ 1,702,155
CHR Agreement Commonwealth Directed Portion: adultBasic (60% of CHR)	\$ 3,658,187	\$ 4,098,571	\$ 769,629	\$ 883,759	\$ 950,040	\$ 1,021,293
Less: Negotiated Credit for adultBasic	\$ -	\$ (1,500,000)	\$ (913,000)	\$ (988,240)	\$ (1,015,011)	\$ (977,278)
Less: Estimated Overpayment (from prior year)	\$ -		\$ (2,905,348)	\$ (3,021,265)	\$ (2,977,328)	\$ (2,977,383)
Estimated CHR Liability to Commonwealth	\$ 3,658,187	\$ 2,598,571	\$ -	\$ -	\$ -	\$ -
Required Other Community Health Related Expenditures (40% of CHR)	\$ 2,438,792	\$ 2,732,381	\$ 513,086	\$ 589,172	\$ 633,360	\$ 680,862

Breakdown of Other Community Health Related Expenditures (Company directed)

Company projects explicit subsidies for certain individual products (Traditional, Security 65, SpecialCare, CHIP, etc).	*	*	*	*	*	*
Community Health Initiatives that provide health services including community health clinics, dental vans, nurse training programs, and other programs focused primarily on the provision of healthcare services.	*	*	*	*	*	*
Community Health Education Initiatives that include participation in health fairs, senior outreach events, and other educational programs directed for public health.	*	*	*	*	*	*
Donations to nonprofit community orgs like PA Breast Cancer Coalition, Weller Health Education Center, United Disability Services, March of Dimes, American Heart Assoc, Kidney Foundation of Central PA, etc.	*	*	*	*	*	*
Proposed Company Directed Total						
PROPOSED TOTALS	\$ 6,096,979	\$ 5,330,952	\$ 513,086	\$ 589,172	\$ 633,360	\$ 680,862
REQUIRED TOTALS	\$ 6,096,979	\$ 5,330,952	\$ 513,086	\$ 589,172	\$ 633,360	\$ 680,862

* - No detail provided application.

Note: Act 62 of 2008 requires that more detailed expenditures be compiled by fiscal year beginning 2009-10. This schedule reflects the original, less stringent standard.

Appendix 5: Major Newspapers Join the Call for Funding adultBasic Through 2014

Pittsburgh Post-Gazette | Sunday, August 1, 2010

Covering the basics: The Blues can afford a three-year extension

A patient with a broken leg may be satisfied to walk with the help of a cast and a cane for a few months, but the goal of his medical treatment is a leg that's healed and healthy for the long term.

Likewise, the state's adultBasic health insurance program needs more than a short-term fix.

Pennsylvania's Blue Cross/Blue Shield providers -- including the Highmark health plan in Western Pennsylvania -- agreed in 2005 to contribute to adultBasic, which currently covers 45,927 uninsured adults who aren't poor enough for Medicaid or old enough for Medicare. The Blues have paid nearly \$700 million to the successful program, but the agreement is set to expire at the end of the year. If it isn't extended, thousands of the working poor -- 4,655 of them in Allegheny County -- either will have to go without coverage or buy far-more expensive plans.

Right now adultBasic customers pay \$36 a month and cannot be denied based on pre-existing conditions. So far, the insurance companies are willing to commit to only a six-month extension. What's really needed, though, is a deal that will keep this affordable care available until 2014, when it can be replaced under provisions of the new federal health care law.

When the Blues agreed to start paying for adultBasic in the first place, the insurers were under intense state scrutiny because of the large surpluses they were accruing. According to a report released Wednesday by the Pennsylvania Budget and Policy Center, a research organization, the surpluses have grown, to \$5.6 billion last year.

Gov. Ed Rendell was instrumental in negotiating the six-year agreement, but he is winding up his second term. The candidates hoping to succeed him are divided, with Democrat Dan Onorato seeking the longer commitment but Republican Tom Corbett content with a six-month extension. The Legislature has shown little interest in moving a bill that would mandate payments through 2013.

Like a patient waiting in the emergency room, Pennsylvanians are going to have to speak up and demand attention from the Blues because they need this stopgap treatment until there's a permanent cure

Scranton Times-Tribune | Monday, August 2, 2010

Sustain fund for basic care

Long before the roiling national debate over "Obamacare," Pennsylvania launched a plan to help provide minimal coverage for low-income residents.

AdultBasic, a state-subsidized health insurance plan, was created in 2002 during the Ridge administration. Funded by the state's share of the national settlement with the tobacco industry, the plan offered very basic coverage.

Then, in 2005, consumer advocates, some lawmakers and others raised concerns about the accumulation of massive surpluses by the commonwealth's four big nonprofit, tax-exempt Blue Cross-affiliated health

insurers: Blue Cross of Northeastern Pennsylvania, Independence Blue Cross, Capital Blue Cross and Highmark Inc.

The Blues' nonprofit charters require them to contribute to charitable, health care-related enterprises. Discussions between the companies and state regulators and lawmakers led to a six-year Agreement on Community Health Reinvestment. Beginning in March 2005, the companies made payments equal to 1.6 percent of premiums on their health insurance policies and 1 percent of Medicare- and Medicaid-related insurance products. The state government used 60 percent of that money to increase funding for and enrollment in AdultBasic, and the companies used the other 40 percent for their own community health care initiatives.

In all, the Blues contribute about \$200 million a year to subsidize AdultBasic, which covers more than 45,000 low-income Pennsylvanians. Enrollees pay premiums of \$36 a month.

If there is any doubt about the impact of the Great Recession, it should be dispelled by the growth of the AdultBasic waiting list. According to the Insurance Department, more than 397,000 people were on that list in June. In December 2007, the waiting list was about 130,000 people.

Those on the waiting list may buy AdultBasic coverage at the full premium of between \$300 and \$600 a month, but they are on the waiting list because they cannot afford those rates.

But just as the need for AdultBasic is greatest, the agreement covering the Blues' contributions is about to expire. The expiration date is Dec. 31 but the companies have agreed to extend it through next June.

The Pennsylvania Health Access Network, a consortium of health care advocacy groups, has asked the Legislature to mandate continued contributions by the Blues to AdultBasic through 2014, when the new federal health care law will be fully implemented, offering coverage options to many of the people now under AdultBasic.

It is a compelling case. Despite the payments since 2005, the Blues continue to hold substantial surpluses. Based on their financial filings, the Health Access Network estimates the total surpluses to be about \$5.6 billion. And the companies continue to have an obligation, under their tax exemptions, to contribute to charitable health care enterprises, even though they all also operate for-profit, taxable subsidiaries.

State lawmakers and regulators and the companies should ensure that the agreement is extended through 2014.

The Philadelphia Inquirer, Tuesday, August 3, 2010

Editorial: Right note for the Blues

With the full benefits of national reform more than three years away, now is hardly the time to jettison 46,000 of Pennsylvania's working poor from a state health-insurance program.

The state's trailblazing adultBasic health plan serves as a safety net for low-income people, who pay just \$36 a month for doctor visits and hospital coverage.

For another 400,000 people on the waiting list, adultBasic offers their best hope of obtaining coverage between now and 2014 - when the federal health-insurance overhaul kicks in.

But funding for adultBasic will soon dry up, unless Independence Blue Cross and the state's other Blue Cross Blue Shield plans agree to extend the groundbreaking community-investment pact that was brokered by Gov. Rendell in 2005.

Under the agreement, the Blues provide most of adultBasic's \$160 million annual budget. While the pact expires Dec. 31, the nonprofit insurers say they're willing to extend funding for six months.

That's better than halting the funding as soon as Rendell moves out of the governor's mansion. But a six-month extension will not bridge the gap to 2014. It would mean immediately freezing new enrollees and swelling the size of the waiting list.

The two main candidates to replace Rendell are split on the issue, with Republican Attorney General Tom Corbett arguing that a six-month extension would give the next governor time to huddle with state lawmakers and health-care stakeholders over a remedy. But Allegheny County Executive and Democratic gubernatorial candidate Dan Onorato has the better idea in urging the Blues to re-up now until 2014.

Given the fiscal crunch that the next governor will face as federal stimulus funds wind down, there are likely to be few sources of new funding for adultBasic in the next state budget. A three-year extension of the Blues funding agreement is the only realistic option at this point.

Beyond the six-month extension, the insurers are not raising their hands to volunteer anything. An Independence Blue Cross official points to the still-dismal outlook for the economy.

But the case for continuing this reinvestment by the Blues remains as strong now as it was in 2005. Especially given their charitable mission that enables the Blues to operate their nonprofit arms tax-exempt, as well as having the state's permission to maintain large surpluses as a cushion.

From the insurers' point of view, adultBasic no longer represents an open-ended commitment, either. By 2014, federal subsidies, along with the creation of insurance exchanges, should make private insurance more affordable to many now enrolled in adultBasic.

The Blues' continued support for adultBasic is a reasonable, fair, and prudent means to bridge the gap to federal health-care reform - and to preserve a program that really is a "lifeline."

The Harrisburg Patriot-News, Monday, August 9, 2010

Health care blues: coverage for working poor should be extended

If the Blues won't agree to extend their funding of the adultBasic program for three years the General Assembly should pass legislation that requires them to do so.

If you want to know how big the need for health insurance is among Pennsylvania's working poor, look no further than the program run by the state.

About 45,800 people are enrolled in the adultBasic program, and more could easily be added to the rolls, considering the waiting list has swelled to 407,000.

Central Pennsylvania makes up about 7 percent of those enrolled and 13 percent of people on the waiting list.

The long-term future of the program, however, is in question. Although the four BlueCross and Blue Shield insurance companies across the state that fund adultBasic will likely agree to a six-month extension, that is not enough.

The state needs to negotiate a plan with the Blues to extend the benefits for three years until national health reform kicks in. The agreement with the Blues — currently budgeted at \$183.6 million — will expire on Dec. 31. Another \$15.5 million comes from the tobacco settlement money.

Legislators and the governor seem ready to toss the issue onto the growing pile of financial decisions the next governor will need to make when he steps into office.

This despite the continued high reserves of the Blues and legislation introduced by House Majority Leader Rep. Todd Eachus, D-Luzerne County, that would require an extension until 2014.

The program has been a real success and a national model.

It was created in 2002 by former Republican Gov. Tom Ridge and paid for with tobacco settlement monies.

In 2005, Democratic Gov. Ed Rendell shifted much of the funding for the program to the four Blues when there was public consternation about their high reserves.

That the Blues will likely agree to extend the program for six months is certainly good for all who depend on it, but it does not solve the problem of providing a health care bridge for them until national health care reform begins.

This is especially the case for people with pre-existing conditions.

Considering the Blues' reserves have continued to grow, they should readily volunteer to extend the program.

According to the Pennsylvania Budget and Policy Center, which issued a report on the adultBasic extension, from 2002 to 2009, the four Blues companies' cumulative surpluses went from \$3.5 billion to \$5.6 billion.

This is an increase of 61 percent.

To add to the reasons why they should, the insurers have a charitable mission and the ability to run their nonprofit projects tax-exempt.

Ending the program also would simply shift costs.

Those receiving adultBasic likely would not stop needing medical care.

They would follow in the footsteps of so many others who don't have health insurance: They would get care from our hospital emergency rooms. This, in turn, would drive up hospitals' uncompensated care costs.

Those who are enrolled in adultBasic are poor but have an income. Chances are, they or their spouse work someplace that does not provide health insurance; or they are not eligible for an employer's health coverage — they work part-time, for instance — or they cannot afford the insurance.

As to waiting until next year, the gubernatorial candidates are split on the issue. Democrat Dan Onorato supports the idea of extending the Blues' obligation for three more years. Republican Tom Corbett says he believes the six-month extension makes sense and give the new governor time to assess the program's future.

Throwing 46,000 people off of health insurance, even if it is not until mid-2011, is unacceptable. Demand for the program continues to grow. The waiting list has increased by 300 percent since December 2007.

The Blues insurance companies should voluntarily agree to pay for the program for three years until the start of national health care. If they do not, the General Assembly should pass legislation that requires the extension.