

Testimony of Sharon Ward
Senate Finance Committee Hearing on SB 1182 and SB 1189
August 27, 2008

Thank you for the opportunity to testify today. I serve as the Director of the Pennsylvania Budget and Policy Center, a non-partisan policy research organization based in Harrisburg. I am here today representing the Pennsylvania Health Access Network, a coalition of 35 organizations from across the Commonwealth working to expand access to quality, affordable health insurance. Organizations participating in the PHAN coalition support three broad principles: that all Pennsylvanians should have access to affordable health insurance, that health care costs are the joint responsibility of individuals, the public and private sectors, and that health care costs should be controlled.

Pennsylvanians feel a growing sense of insecurity about their ability to find and pay for comprehensive health insurance-- with good reason. Over the past eight years, Pennsylvania and the nation have experienced increasing health care premiums, higher out of pocket costs for individuals and families and declining employer-sponsored health care coverage. The percentage of Pennsylvanians without health insurance increased from 8% in 2000 to 10% in 2006. The Commonwealth posted the second largest loss of employment based insurance in the country between 2000 and 2006.

We applaud the Senate for acknowledging Pennsylvanian's concerns about health care coverage and believe the Health Net package introduced in June includes several worthwhile proposals.

Senator Folmer is to be commended for his interest in making health insurance coverage more affordable for small businesses and their employees and for his concern about the impact of rising health care premiums on Pennsylvania families.

We do have several concerns about the bills that are the subject of today's hearing, SB 1182 and SB 1189. Moreover, although the goal is laudable, we believe limited public sector funds are best put to use subsidizing premiums for moderate income families and small employers, the approach used in SB 1137, also under consideration.

The HSA tax credit proposed in SB 1182 would not increase the number of Pennsylvanians with health insurance coverage.

SB 1182 is targeted to employers with fewer than 100 employees who offer high deductible health care plans with federally qualified health savings accounts. The legislation would offer a tax credit to employers who contribute to employees HSAs, which would help employees to afford the deductible, which ranges from \$2000 to \$5000. The bill does emphasize a real problem, fewer employers contribute to employee HSAs than anticipated; the Kaiser Family Foundation reported that in 2007 only 50% of employers offering high deductible plans made a contribution to employee HSAs.

If the goal is to expand health insurance cover, this approach is likely to be unsuccessful. Premium costs are the major obstacle to employers ability to offer a health insurance product and the tax credit offered in SB 1182 is targeted to spur additional spending on HSA contributions rather than reduce premium costs. The tax benefit offered in SB 1182 is not a sufficient incentive for an employer who is not currently offering insurance to do so.

The bill is too expansive in scope.

Under SB 1182 eligible firms include S corps, partnerships and other pass through entities with fewer than 100 employees, in addition to sole proprietorships. It does not limit participation to lower margin firms or to low wage workers.

Health insurance coverage varies significantly by firm size. According to data from the Medical Expenditure Panel Survey for 2004, only 44% of private sector firms in Pennsylvania with fewer than 10 employees offer health insurance to employees, while 78% of firms with 10 to 24 employees offer coverage. That number jumps to 93% for firms with 25 to 100 employees which is comparable to rate of larger firms. This suggests that firms with 25 employees or more have the wherewithal to offer health insurance, and have made the choice to do so, perhaps to attract and retain skilled employees.

If the goal of the legislation, or any legislation, is to induce more small businesses to provide insurance, the bill should probably be targeted to the smallest firms- those 10 or fewer employees.

The bill also offers a taxpayer subsidy to individuals out-of-pocket medical costs without respect to the employees' income or ability to pay.

It is true that growing out-of-pocket health care costs place increased pressure on household budgets at a time when middle class wages have stagnated, fuel and food costs have risen and housing values are in decline. Still it is the moderate income families —those with incomes between \$20,000 and \$40,000— that have experienced the greatest burden of rising health care costs and growing health care insecurity.

A report from the Commonwealth Fund, a national health care research organization, released earlier this month found that more than half of adults with incomes below \$40,000 reported problems paying medical bills in 2007 and the share of households between \$21,000 and \$40,000 that went for some period of time without health insurance coverage increased from 28% in 2001 to 41% in 2007.

We would argue that public subsidies should take into consideration ability to pay.

SB 1182 offers the wrong kind of incentive

The tax credit offered in SB 1182 will provide an incentive for employers to drop comprehensive insurance in favor of high deductible plans. This is precisely the wrong direction. It is inappropriate for state tax policy to favor high deductible plans over more comprehensive health insurance coverage.

High deductible plans with HSAs do offer somewhat lower premiums, and have the benefit of portability, but these benefits do not outweigh the disadvantages for many consumers. The increased out-of-pocket deductible costs are too great a burden, increasing their total medical debt and adding to the risk of financial ruin for families of modest means.

Health savings accounts may be appropriate for some employers for some employees. For example, the General Accounting Office found that higher income taxpayers were more likely to utilize HSA's than the average taxpayer, which makes sense. The tax advantages can be beneficial for families with few health problems and income to save. On the other hand a family of modest means can accrue savings through an HSA but can see those savings disappear with one bad illness. The family is then back at square one, left with medical debt and forced to pay new costs with current earnings. High deductible plans are a part of the problem, not a part of the solution.

Whether or not to use of high deductible should be a decision based on the needs of the firm and its workers, not an incentive created by the state.

Other tax incentives are a better bet.

States are experimenting with tax incentives for health insurance coverage. The state of Montana runs two programs, a premium subsidy for small employers that have not offered health insurance coverage and a tax credit for premium payments for small employers that pay some part of the premium for family coverage.

SB 1137, the proposed Pennsylvania Access to Basic Care program (PA-ABC) includes a tax credit provision. The bill would establish CARE grants, a grant against state tax liability for companies with up to 50 employees and median wage up to about 300% of the \$42,000 that offer health insurance coverage. The financial proposal would allocate \$42 million from the AUTOCAT fund for this purpose. The program is established as a grant rather than a tax credit in order to address uniformity clause. It is likely that the credits in SB 1182 would run into the same problem with uniformity.

SB 1189

The second of Senator Folmer's bill would provide a credit against personal income tax liability for employees unreimbursed premium contributions. Again the proposal reflects a concern about the impact of higher health care costs on family budgets, but the approach is probably unworkable. More than 90% of employees contribute to their insurance premiums, making this a very expensive program. It would offer a credit regardless of income, a credit that is much more beneficial at higher income levels.

The Medicaid expansion proposed in SB 1137 makes good financial sense

Pennsylvania was a leader in establishing a state funded program to provide health insurance for lower income individuals through Adult Basic. Most states that created similar state funded programs have now moved to federalize those programs, enabling the states to draw down federal dollars to expand those programs.

Pennsylvania should "modernize" adultBasic. By adding prescription drug and behavior health benefits the commonwealth could meet federal program requirements and draw down an estimated \$400 million annually in new Federal Medicaid funds. 18 states have already secured Medicaid waivers, Pennsylvania is almost assured of receiving a waiver as well.

The financial risk to the Commonwealth is minimal; enrollment could be capped as it is in most of the other Medicaid waiver programs. \$400 million is a significant amount to leave on the table, particularly when the need for health care is so acute today.

As discussed SB 1137 would provide a direct subsidy for small businesses, seeking to offer insurance to their employees. A similar program in New York, Healthy New York, is popular with businesses and has an enrollment approaching 140,000.

Thanks for the opportunity to testify.