

PENNSYLVANIA HOUSE OF REPRESENTATIVES

MAJORITY POLICY COMMITTEE

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HAZLE TOWNSHIP COMMONS BUILDING

TESTIMONY BY JOHN D. KEEGAN R.PH. OWNER HEIGHTS TERRACE PHARMACY

Majority Policy Committee Chairman Rep. Dave Reed and other House Majority Policy members of the committee, as well as my local Representative Tarah Toohil, thank you for asking me to participate and giving me the opportunity to testify in this important time on job creation and retention, workforce development and regulatory issues to improve the Commonwealth's economic climate.

Municipal governments across this Commonwealth are facing the choice of increasing the tax burden on its constituents or reducing essential services. Neither choice would be part of a plan to foster an environment to attract businesses leading to more jobs.

It is no secret that as we recover from the current fiscal crisis across the country an improved financial outlook will reemerge for all levels of government. However the lingering question for all officials is whether the improvement will be enough to provide a sustainable path for infrastructure improvements, projects that would encourage businesses to relocate, expand or at the very least, remain in municipalities, and attract the type of employees with credentials to meet the organizational needs of those businesses.

The "brain drain" of our youth leaving our areas inhibits the ability of any municipality to meet the skill needs of prospective employers. It is a summons to reform government policies that will lead to sustained economic growth and a diverse workforce to be the foundation behind that progress.

Regionalization of municipal governments and school districts is essential to preventing the brain drain. Weak municipalities inherently lack the ability to attract graduating youth, high school and college, to their towns due to the lack of any opportunity. The money spent on top heavy management in our school districts could be put to better use in the classroom. Provincialism is preventing progress and opportunity for our youth.

Likewise a government with limited grant money wants to make its dollars serve the most, not the least.

Creating a new strategy that focuses on regional goals will serve to create a pool of employees for prospective employers. Sometimes we concentrate too much on pushing the most motivated students into four-year colleges without balancing those efforts to attract young people not headed for bachelor's degrees with training, vocational, and assorted associate-degree programs. Gone are the days of well-paying blue-collar factory jobs in most communities. China and India are quick on our heels so we have to come up with new ways to combat lost jobs overseas.

Let me speak to one scenario. Penn State Hazleton Campus is the only campus in their university system that grants a four year degree in alternative power engineering. Our area can become the driver of those initiatives in wind and solar but we must establish the opportunity for graduates of that program to find employment here. In creating that employment jobs in manufacturing components of wind and solar will come to the region making it attractive for those non-college bound graduates to stay in the Greater Hazleton area as well. Such partnerships require the close collaboration among business and civic leaders, elected officials, and secondary and community-college administrators.

High school administrators need to work more towards coordinating senior year offerings to the impending job market available to graduates who are not considering college as well as distant college learning opportunities for the college bound.

Such a strategy takes money and that leads me to my next issue.

The appetite for cash in the budget of the Commonwealth of Pennsylvania appears, to me, to be one of the biggest deterrents to job creation and future growth of Pennsylvania's economy. I realize that this phenomenon is not a new one, however, up until this year it was a continuing one.

What do I mean about the cash appetite of Pennsylvania government?

In Pennsylvania government policy supports the current state owned liquor-control system. The money reported as returned to the Commonwealth's coffers failed in the past to adequately meet the growing needs of the state budgetary requirements.

New initiatives were born. In 1971 the state lottery system came into being. Various initiatives and innovative changes helped the lottery to grow and swell. However, that money wasn't enough to meet the budgetary needs of an expanding government or its additional assistance programs.

The Commonwealth approved casino slot games in 2006. Although taxed at 55% of their gross terminal revenue and anteing up \$50 million per license that money wasn't enough to meet Pennsylvania's cash appetite. Pennsylvania began operating table games in 2010. It is a fact that the ten casinos in Pennsylvania pay more state tax than the 216 casinos in Nevada. Pennsylvania topped the nation with about \$1.1 billion in tax revenue from casinos in the 2009 fiscal year alone. But that still is not enough.

Now the battle cry is to tax Marcellous Shale. I am not here to debate the execution of any of these policies, however, growing a government in this manner is not what our forefathers envisioned for this great country. Yes, an abundant amount of jobs were created with these endeavors, however, their net result alone evidently cannot sustain a plan for future growth. Some see taxing the natural gas industry as the answer but like the other initiatives that money will only go so far. Politicians have a way of doing that, leaders find a way around it.

Pennsylvania, as with all governments, should create the efficient environment that allows private accomplishments to create jobs rather than use fees and taxation as a means of creating bureaucracies and government jobs that were essential as part of the implementation of these policies. Its appetite

for cash must be weighed heavily against the more important mission of creating a positive economic climate for Pennsylvania.

Reducing the overall tax burden to business and taxpayers will create the climate for growth through control of spending on the cost of government across the entire spectrum.

As a healthcare professional I want to broach the subject of health insurance. We could sit here and debate all of the various proposals before Congress and at the state level. What is most important is the significant impact on the employees as consumers and employers as purchasers.

Skyrocketing premiums have put health insurance out of reach for millions of consumers and thousands of small businesses while the number of uninsured Pennsylvanians increases to critical levels. Choice from a market supply of affordable health insurance alternatives would allow competition to determine a fair value for this essential financial protection.

The current lack of competition among Pennsylvania health care insurers has hurt employers and consumers because they have few choices on issues of quality and cost. In fact there are “no compete” agreements in place in parts of the Commonwealth. In June, 2008 testimony David Balto, Senior Fellow, Center for American Progress Action Fund stated that Independence Blue Cross controlled 71 percent of its market. Further he stated competition matters. A recent study noted that insurance premiums are 12 percent lower in those markets in which there is comparatively higher level of competition than in less competitive markets where a limited number of health care insurers have a higher concentration of the available insureds.

Pennsylvania government limits the offerings by county and refuses to take down the barriers to competition thereby preventing health care insurers from offering their products statewide, even interstate. Why is it that we can purchase auto, life, and home insurance across state lines but the glaring exception is limiting our health care insurance choices? Why is it that we can purchase Geico and others on the internet but are forced into limited options for one of the most significant costs to businesses?

Pennsylvania needs to move away from an environment that encourages risk selection and exorbitant rate increases by replacing it with larger pools of purchasers so that health insurance companies will have to compete for their business. When you spread risk across a greater continuum of people in the health care insurance business it will lead to more stable pricing and smaller price increases through expanding the divisors used by actuaries in determining premiums. In addition lower administrative costs will lead to substantial savings.

Risk selection is a problem. Coverage mandates are the root cause of this tactic. Today Pennsylvania has 40 mandates, some that aim to reduce cost but others that increase costs. On a federal level government mandated coverage for children up to age 26 and birth control. But without an accompanying provision to prevent a premium increase what good is the mandate?

As more healthy people opt out of health insurance because it is too expensive relative to what they consume, the purchasing pool transforms into a group of older, sicker people. Prices go higher still and more healthy people flee. Spreading the risk over larger numbers with adequate competitive choices mitigates that problem.

In the pharmacy business just three pharmaceutical benefit managers(PBMs) dominate 81% of the prescription market in this country. These entities own their own mail order operations elsewhere which take out millions in tax revenue from this state. The job losses from their dominance are staggering. Prescription prices continually rise although these entities, like health care insurers, limit the amount of reimbursement. PBMs blame retail pharmacies, particularly independent pharmacies for higher prices but that cannot be the case where the PBM controls the price allowed to the providers. It is the PBM pricing and associated costs to the employer that is the culprit.

Currently they are the only unregulated health care entities in the industry. By contract they refuse to give the same terms to retail pharmacies that they give to their own mail order operations. Clearly that is an anti-competitive environment which only leads to increase health care costs to the employer/purchaser including the Commonwealth of Pennsylvania. This industry has no room for oligopolistic firms. Their market power produces maximized profits for them while inflicting marginal revenue on pharmacy providers that fail to meet the cost of dispensing in many cases.

In one case the PBM is owned by a chain pharmacy operation. Imagine a world where my competitor is dictating my pricing and forcing my patients to secure their prescriptions from their own mail order operation.

PBMs must be independent where employers are fundamentally purchasing the services of an “honest broker” employing fiduciary oversight trying to seek the lowest prices and best services from pharmaceutical manufacturers and pharmacies serving their clients. When the PBM is owned by the corporate entity it is supposed to bargain with there is an inherent conflict of interest. The result may lead to fraud, deceptive business practices, anticompetitive conduct, and higher prices. In the 1990’s the Federal Trade Commission forced pharmaceutical manufacturers to divest themselves of PBM ownership for these exact reasons.

Ongoing fraudulent and deceptive practices continue despite the hundreds of millions paid in fines over the years by PBMs. If retail pharmacies committed these transgressions they would have been removed as providers immediately.

Today we see the same approach with hospital entities as the insurers and the payors. Allowing this practice to continue will not solve the long term costs and rises in the price of Pennsylvania health care. Prospective employers consider these costs when determining whether to locate in our Commonwealth.

It is time for the legislature to take a hard look at the combined insurer/provider model so that employers and consumers alike are protected from predatory practices.

Our competitive stance as a state in a global market is greatly reduced by the all of these areas I present to this committee. Slowing the growth of government by controlling taxation, increasing health care insurance options, and increasing competition should be part of an overall plan devised to promote job creation and retention.

I truly appreciate the opportunity to present these issues to this committee. I applaud the committee in its effort and dedication to moving Pennsylvania forward. Thank you and I would be willing to take any questions you might have.