

Written Testimony

Budget Testimony for House Appropriations

March 5, 2025

Background

Chairman Harris, Chairman Struzzi, and members of the House Appropriations Committee: thank you for the opportunity to represent the Pennsylvania Health Insurance Exchange Authority – known as Pennie. It has been five years since our inception after the bipartisan, unanimous vote to create a state-based marketplace (exchange) in Pennsylvania with a “two for one” benefit - local control over health coverage and a reinsurance program to reduce costs across the individual market.

Pennie serves Pennsylvanians who do not have access to other health coverage – including those who are not offered employer coverage, are not yet eligible for Medicare, and whose incomes are too high for Medicaid. Many Pennie enrollees are hard-working small business owners, independent contractors, and individuals who have one or more part-time jobs.

Following this year’s record-breaking enrollment period, nearly half a million Pennsylvanians now have high-quality, affordable coverage through Pennie’s marketplace.

Pennie is an independent state agency, and our core mission is to expand access to high-quality, affordable coverage across Pennsylvania. Pennie is governed by a Board of Directors with expertise from across the public health, insurance industry, and consumer perspectives.

Pennie and the Insurance Department have distinct yet complementary roles. The Insurance Department reviews and approves individual market health plans, including overall rates, network adequacy, claims appeals, and coverage benefits. Only those plans with the maximum consumer protections are offered through Pennie, ensuring comprehensive medical care coverage, no annual or lifetime limits, and coverage for pre-existing conditions. Through Pennie, consumers can compare plans and search for providers and prescription coverage. Importantly, Pennie is the only place to access federal premium tax credits that instantly reduce the cost of coverage.

Current State

Pennie has fostered a successful, consumer-friendly marketplace, but that success faces serious barriers ahead. At the end of Open Enrollment for 2025 coverage, Pennie reached a record of 497,000 Pennsylvanians enrolled - the largest population ever enrolled through the marketplace in PA and a 14 percent increase from last year. Since its inception, Pennie has increased enrollment by 80 percent. While the focus is often placed on overall enrollment numbers, it is the individual stories that truly convey the life-changing impact to each of the half million enrollees.

Current enrollees include a married couple running a dairy farm in Lancaster, who count on Pennie coverage to manage a serious heart condition and to know they can access care given the physical risks of farming. A small business owner in Pittsburgh who has a chronic illness requiring ongoing care and wants to start a family relies on affordable Pennie coverage. A real estate agent in West Chester and his wife, who stays home to raise their three young children including a newborn, has

depended on Pennie coverage for their kids and throughout their most recent pregnancy. One Pennie enrollee found that she could finally afford coverage after months of being uninsured and worrying that her diabetes, without treatment, would leave her baby without a mother. At many stages in life, these examples show how affordable coverage drives health and financial security across the Commonwealth.

Despite record-breaking enrollment, more than 600,000 Pennsylvanians remain uninsured, underscoring the need for continued outreach and affordability solutions. However, significant challenges threaten future progress.

Moving Forward

Pennie's future progress depends on external factors that will significantly impact the ability to meet the mission of increasing access to high-quality, affordable coverage, including:

- 1) Continuation of federal enhanced premium tax credits
- 2) State funding for an affordability program
- 3) Risk mitigation and investments through managing budget contingencies

Driven primarily by the first factor, these components are inseparable both on access to coverage and – for purposes of this hearing – Pennie's budget. Affordability impacts enrollment; the higher the enrollment, the more revenue Pennie has to invest in our program and reinsurance. Inversely, if enrollment drops significantly due to higher costs, Pennie's budget will drop proportionately, putting at risk our ability to continue meeting our program needs.

1) Enhanced Premium Tax Credits

The health insurance marketplace has been the source of federal premium tax credits since 2014. Starting in 2021, additional premium tax credits were made available – both in higher amounts and to a broader range of incomes. These additional savings – called enhanced premium tax credits - cut costs in half for Pennie enrollees and made coverage more affordable than ever. This \$600 million annually in direct cost savings for Pennsylvanians led to a 47 percent increase in enrollees.

Without Congressional action, the enhanced premium tax credits expire at the end of 2025 and costs will increase significantly in 2026. Pennie enrollees receiving tax credits will pay 82 percent more on average – many will see costs double and, in some cases, triple or quadruple. Compounding the issue is the fact that three quarters of Pennie enrollees have *only* ever purchased coverage with the enhanced premium tax credits, and many may not be aware that some of their cost savings could end.

In the face of significant cost increases, enrollees will be forced to make the difficult decision of whether to forego coverage completely. Without action, coverage for hundreds of thousands of Pennsylvanians would be at risk. Being uninsured means uncertainty, risk, and fear of what happens if they have the misfortune of an illness or injury.

Certain populations will be hit hardest:

- Rural residents, who already pay higher premiums, will see costs double on average.

- Middle-income older Pennsylvanians, particularly those not yet eligible for Medicare, face extreme risk. For example, a 60-year-old couple in York County earning \$82,000 would see their premiums jump from \$586 to \$2,976 per month - consuming 44% of their income.
- Small business owners and self-employed workers, who are three times more likely to rely on Pennie, will be disproportionately affected.

If Congress does not reauthorize these tax credits, Pennie enrollment will decline, reversing four years of progress and increasing insurance costs for all Pennsylvanians. Fewer insured residents mean higher uncompensated care costs, straining hospitals, providers, and the state budget.

2) State Affordability Program

Cost remains the primary barrier to coverage. Many uninsured Pennsylvanians cannot afford coverage even with the availability of federal tax credits, highlighting the need for additional affordability solutions.

The General Assembly's 2024-2025 authorization for Pennie's State Health Insurance Exchange Affordability Program was a critical step. This program will further lower costs and expand access - helping both the uninsured and current Pennie enrollees find better coverage.

Once funded, this program will lower costs for Pennsylvanians and we look forward to continuing to work with the General Assembly to ensure full implementation of this program.

3) Pennie's Budget

Pennie is self-funded through user fees from participating health and dental insurance companies on a rate of 3 percent of the total premium amount for enrolled Pennsylvanians. The funds generated through these fees pay for Pennie's program operations and the state's contribution to the reinsurance program operated by the Insurance Department. This funding structure means that our budget is directly tied to enrollment and, thus, Pennie's future financial position is highly dependent on the federal extension of the enhanced premium tax credits.

During Pennie's initial four years of operation, a fiscally conservative approach ensured viability of a new program being faced with significant uncertainties related to COVID impacts and changing federal policies. In particular, changing health care dynamics resulted in Pennie having higher revenues through unexpectedly high enrollment from the enhanced premium tax credits, and lower costs due to changes to the reinsurance program. Ultimately, many of these major program changes contributed to a strong financial position, with unique one-time circumstances that created a carryover balance, that may be threatened by the disruption that Pennie faces in 2026.

Pennie is at risk of volatility in the opposite direction with the potential to lose significant revenues if enhanced premium tax credits are not extended by Congress. In that case, all the carryover and reserve funds set aside by the Board of Directors would be needed immediately to stabilize our program and to meet financial obligations amidst major disruption.

Two Paths Forward: Driving Value for PA, or Downward Spiral

The current uncertainty of an extension of the enhanced premium tax credits presents Pennie with two drastically different futures: 1) a thriving marketplace where Pennie can continue to build on the success we have achieved with new levels of innovation and coverage; or 2) a downward spiral from significant coverage losses and corresponding budget reductions, reversing historic progress.

Downward Spiral

Without an extension of the enhanced premium tax credits, Pennie faces potential coverage and corresponding budgetary losses of up to 30%, which would mean significant operational cuts that would negatively impact access to coverage and our ability to fund reinsurance at the same levels.

While the State Affordability Program, once funded, could reduce some of the negative impacts, significant coverage loss would still occur. The total value of the enhanced premium tax credits is around \$600 million annually, while the current level of funding contemplated for the State Affordability Program is less than one-tenth of that at \$50 million.

Drastic cuts along with reductions in contributions to reinsurance would limit the program's ability to stabilize a spiraling market when it needs it the most. We would need to cut back significantly on consumer support, including the call center, severely limiting our ability to promptly answer questions of confused and angry Pennsylvanians when they need answers the most. And, we would need to cut back on outreach and education to Pennsylvanians at a time when Pennie needs to convey more nuanced information than ever.

Pennie's budget would immediately have higher costs than revenues, and only by using our carryover and reserve funds would Pennie have enough time to recalibrate the budget to settle into a severely reduced equilibrium of self-sustainability moving forward. While the operating impacts would be severe, the impact would pale in comparison to the negative impacts across Pennsylvania to the individuals who can no longer access their doctors and are one medical emergency away from losing their savings.

Thriving Path

In contrast to the downward spiral path, if the enhanced premium tax credits are extended beyond 2025, Pennie can take exciting steps to further meet the needs of PA by further developing a state-based marketplace that is tailored to the needs of PA.

That means continuing to reduce the still 600,000 uninsured Pennsylvanians, and expanding our on-the-ground outreach, education, and enrollment assistance to every county in PA. That means creating innovative, first-in-the-nation tools for residents to better understand health insurance so they can truly make informed decisions. And that means increasing engagement with independent businesses that are often uninsured and not aware of Pennie as an option. Finally, that means supporting a robust reinsurance program that decreases costs across the individual market.

These future goals will increase the number of insured Pennsylvanians even more and – by doing that – further strengthen the health and financial security of families, and the PA health care system overall.

Summary

While Pennie celebrates record-breaking enrollment, there is still significant work ahead. Over 600,000 Pennsylvanians remain uninsured, and the message we hear from communities is clear: health coverage is still too expensive for many. Even those who can afford it report feeling financial strain, with some on the verge of losing their coverage altogether.

For those who do secure coverage, the impact is transformative—offering peace of mind and the ability to focus on recovery during illness or injury, rather than worrying about the financial burden. From farmers in Lancaster and small business owners in Erie to online entrepreneurs in Philadelphia, the ability to access affordable coverage delivers meaningful benefits across the Commonwealth. Pennie remains committed to expanding this protection to more Pennsylvanians.

At Pennie, we often think of the value of coverage both in our own lives or those of loved ones, when a new diagnosis or pain elicits intense fear of the unknown. It's in these most vulnerable moments, that the value of health coverage becomes undeniable. Our mission is simple but critical: to eliminate the fear of whether you can get the care you need, so you can focus on what truly matters—your health and your future.

With that focus in mind, we look forward to continued partnership with each of you moving forward.