



October 24, 2013

Ms. Deborah L. Rice-Johnson
President, Highmark Health Plan
Fifth Avenue Place
120 Fifth Avenue
Pittsburgh, PA 15222-3099

RE: Highmark Health Services' proposed \$178.3 million loan to Highmark to provide financing for Highmark's electronic medical records initiative

Dear Ms. Rice-Johnson:

The Pennsylvania Department of Insurance (the "Department") has completed its review of your non-confidential letter dated October 4, 2013, as well as of the confidential "Prior Notice of a Financial Commitment Pursuant to Condition 11(B) of the Approving Determination and Order No. ID-RC-13-06 and 40 P.S. § 991.1405" (the "Financial Commitment Notice").

Section 11(B) of the Approving Determination Order No. ID-RC-13-06 (the "Order") is titled "Transactions Requiring Only Notice" and requires, among other things, that Highmark Health Services ("Highmark Health") deliver to the Department written notice of any Financial Commitments (as defined in the Order) of more than \$100,000,000 but less than \$250,000,000 made within twelve (12) consecutive months immediately preceding the making of the Financial Commitment.

As you discuss in your October 4 letter, Highmark Health proposes to "make a loan to Highmark in the aggregate principal amount of \$178.3 million." The proceeds from the loan will be used by Highmark ". . . to acquire, develop and implement an electronic medical records ("EMR") capability, which Highmark has determined to be a key component of its integrated delivery network ("IDN") strategy." The proposed effective date is immediate.

The Department has been informed by representatives of Highmark that, other than the \$178.3 million proposed loan from Highmark Health to Highmark, no other Financial Commitments were made by any entity covered by the Order in the prior twelve (12) consecutive months. This does not include any Financial Commitments that were approved by the Order.

In your letter, you discuss certain savings and benefit related to implementation of the proposed EMR capability that will result in savings to West Penn Allegheny Health System and Highmark Health. For purposes of its review, the Department assumed this as accurate, but the Department notes the following: (1) the \$178.3 million proposed expenditures were not included within the \$1.834 billion of total IDN Financial Commitments that the Department's consultants calculated were described in the Form A filing approved by the Order; while (2) most of the projected savings and benefits attributed to the EMR technology were included in the savings and benefits described in the materials supplied to the

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Department with the Form A filing. The Department therefore considers that the total amount of Highmark's IDN-related Financial Commitments to have increased from \$1.834 billion to \$2.012 billion, while the total anticipated IDN savings have remained largely unchanged.

Based on its review of the Financial Commitment Notice and other information submitted regarding that notice, the Department acknowledges receipt of the Financial Commitment Notice as required by Condition 11(B) and does not have any objection to Highmark Health implementing the transactions as described in the Financial Commitment Notice.

Sincerely,



Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation

cc: Jack M. Stover, Esq.