

**BEFORE THE INSURANCE DEPARTMENT  
OF THE  
COMMONWEALTH OF PENNSYLVANIA**

Statement Regarding the Acquisition of Control of or Merger with  
Domestic Insurers:

Highmark Inc.; First Priority Life Insurance Company, Inc.;  
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;  
Highmark Senior Resources Inc.; HM Casualty Insurance Company;  
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;  
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,  
d/b/a First Priority Health; Inter-County Health Plan, Inc.;  
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;  
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;  
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

**RESPONSE TO PID INFORMATION REQUEST 3.7 FROM THE  
PENNSYLVANIA INSURANCE DEPARTMENT**

**REQUEST 3.7:**

**Provide a full and complete copy of any written testimony given on behalf of the  
Applicant or any Highmark and WPAHS Entity regarding or referencing the Transaction.**

**RESPONSE:**

To UPE's knowledge, attached are copies of written testimony given by Highmark  
representatives to state and local legislative bodies regarding or referencing the Transaction.

UPE  
120 Fifth Avenue  
Pittsburgh, PA 15222

# Remarks on Highmark – UPMC Contract

## Pennsylvania Senate Banking and Insurance Committee

November 30, 2011

**Kenneth R. Melani, M.D.**  
President and Chief Executive Officer

**Deborah L. Rice**  
Executive Vice President  
Health Services Division

Thank you, Chairman White and members of the Committee for the opportunity to speak with you again. With me today is Deb Rice, our executive vice president of Health Services. This morning, I will focus on some encouraging developments that have taken place during the past few months, including the overwhelming community support for UPMC and Highmark to negotiate a new contract to preserve affordable access to UPMC hospitals and physicians for all Western Pennsylvanians. I will also provide an update on the progress of the Highmark – West Penn Allegheny transaction.

Unfortunately, UPMC continues to simply dismiss the concerns that have been raised by Western Pennsylvania consumers, many elected officials, physicians, community leaders, a former U.S. Treasury Secretary, ministers, organized labor, CEOs, nurses and employers. UPMC only continues to talk about the divorce from Highmark.

I understand that one of the stated reasons for this hearing is to discuss UPMC's game plan to unwind the Highmark contract. But as we said at the last hearing, Highmark doesn't want this, and the community doesn't want this either. It sends the wrong message to this community if Highmark was to spend substantial time and energy to answer these divorce questions.

Meanwhile, UPMC, to this point, has flatly refused to answer the most fundamental questions that people are asking every day about why they will restrict access to community assets that were paid for by taxpayer grants, local philanthropy and subscriber insurance premiums, and why they are making their doctors and hospitals prohibitively expensive for so many residents. Many people are also wondering why UPMC is threatening to take the radical step of cancelling the physician contracts with Highmark when these contracts are not set to expire. These are the important questions that our members, and many of your constituents, are interested in. I believe UPMC, as a public charity, has an obligation to this community to answer them.

I have read UPMC's divorce plan. My first reaction was that it was written by some administrator who knows almost nothing about patient care. All the questions in the UPMC plan about transition of care and out-of-network usage treat patients like a commodity. The plan completely overlooks the realities of patient care from a physician perspective. Physicians should not have to distinguish how they treat patients based upon which insurance card they carry. Furthermore, physicians have an obligation to make sure that all patients receive the best care possible.



Let me be more specific about the shortcomings of the UPMC plan and use the example of a patient with cancer. The course of treatment for cancer victims is unpredictable and varies from patient to patient. While patients may go to Hillman Cancer Center for chemotherapy, they may end up at Shadyside, Presbyterian, Magee or another UPMC institution for their surgery, radiation therapy, bone marrow transplant, or treatment of a drug-induced heart, kidney, liver or lung problem.

In addition, they may develop a complication while at home and be sent to a UPMC community hospital emergency room. So how can a health plan provide understandable coverage for these patients without a contract for all services and physicians at all UPMC entities?

And what happens if that same cancer patient has a heart attack? Is he or she covered as in-network because the heart condition is related to the cancer or as out-of-network because it has nothing to do with the cancer?

More importantly, why is it okay for a patient with cancer to have in-network access to UPMC facilities and physicians while someone with heart disease, lung disease, diabetes or another serious medical condition is not afforded the same in-network access?

The end result of UPMC's actions is to slice and dice the Highmark provider network so that some UPMC facilities and physicians might be in the network while other UPMC hospitals would be left out. Although that approach may advance UPMC's business interests, it's surely not fair to patients and physicians who are rightly focused on finding the best resources the community offers, at the most affordable cost, to achieve the best outcome for patients. Simply put, a health system should not limit access by excluding certain hospitals or practitioners from their networks.

Rather than debating these issues, we should be discussing what is fair and just for patients – and not a proposal that does exactly the opposite. Many of UPMC's doctors have told us the same thing. They agree the best thing for patients is for Highmark and UPMC to negotiate a new contract.

For all these reasons, Highmark will not, and should not, entertain this proposal. In fact, I'd urge this committee to refrain from discussing the details of unwinding the UPMC – Highmark relationship. Your valuable time is better spent discussing with UPMC and Highmark the need for renewing a contract that assures affordable access to all community health care assets.

In fact, I would propose that Mr. Romoff and I issue a joint statement telling the community that, despite our current disagreements, Highmark and UPMC are committed to signing a new contract that benefits the entire community by making health care more affordable and preserving the access Western Pennsylvania residents have enjoyed for nearly a century.

During the past few months, it has become abundantly clear how Western Pennsylvanians feel about this matter. They want UPMC to negotiate a new contract with Highmark. Let me share with you one of the many heart-wrenching stories we receive daily from Western Pennsylvania residents who have come forward to say how this dispute is affecting them and their loved ones.

One gentleman who came to us recently told us that his wife has renal disease and has been treated at Presbyterian Hospital for 20 years. She has received three kidney transplants and depends on the care and support of her transplant team to survive. Her husband is angry and saddened at the emotional strain this dispute has put on his family – and the emotional toll it's taking on his wife – when their real concern should be her treatment and her well-being.

This is just one example of dozens of people who are telling their stories in the newspapers, online, in social media and to their friends and family. Stories like this reinforce the need for Highmark to stay true to its mission and continue to fight for a contract that gives our members full access to all of the non-profit community assets owned by UPMC.

While UPMC's divorce plan clearly doesn't meet the needs of the community, Highmark's plan is simple and will assure the community has affordable access to all community health care assets, regardless of what insurance card you have. And it will give patients a choice.

The Highmark plan has two elements. The first is to negotiate a contract with UPMC to guarantee our customers have affordable access to hospitals built by and for the community. The second is to reinvigorate the West Penn Allegheny Health System to assure there are alternatives in health care delivery. Our plan is simple, easy to understand, and doesn't mislead anyone. And it would benefit every patient, family and business in the region.

As you may have heard, we are starting to make progress toward fulfilling the second element of our plan. Earlier this month, Highmark and West Penn Allegheny Health System signed a definitive agreement and filed a Form A with the Pennsylvania Insurance Department. We hope the Department will review and approve the filing promptly. The Attorney General's Office, the Orphan's Court of Allegheny County and the IRS must also clear the transaction.

Two weeks ago, I was proud to be at West Penn Hospital in Bloomfield where we announced plans to re-open the emergency room early next year, add new hospital beds and expand the hospital's general medicine and surgery capabilities.

As I walked around the hospital that day, I could feel the excitement and anticipation. Nurses and other hospital staff said they could hardly wait for the day when this proud facility will be very busy again. They were also grateful that Highmark had stepped in to save thousands of jobs.

I must caution that the improvements at West Penn, Allegheny General and the other hospitals in the system will take time. We still have lots of work to do to restore the physical plants at these hospitals, solidify trusting, working relationships with the physicians and establish real competition among viable health care delivery systems to hold the line on health care costs and improve the patient experience.

In closing, I must admit the current situation with UPMC has reminded me of some core values I learned in medical school. I was trained to do no harm, and to put patients and people at the center of everything I do. As this committee considers options to help resolve the dispute, I hope you are guided by a similar commitment to do the right things for patients, and to ease the anxiety and concerns that so many of your constituents are experiencing.

Deb and I are now prepared to answer any questions you may have.

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# Remarks on Highmark – UPMC Negotiations

## Allegheny County Council – Committee On Health and Human Services

August 3, 2011

**Daniel O'Malley**  
Market President  
Highmark Inc.

My name is Dan O'Malley. I am Highmark's market president for regional markets and provider contracting. With me today is Jim Fawcett, Highmark's senior vice president for Pennsylvania markets, and Michael Warfel, Highmark's vice president for government affairs. I would like to thank Chairman Palmiere and the members of the Committee for the opportunity to appear here today to talk about Highmark's commitment to preserving choice of hospitals and physicians for Allegheny County residents.

I am responsible for marketing Highmark products to employers in the state and for our contracting with hospitals, physicians and other health care providers. In this role, I meet regularly with a cross-section of the community: employers, hospital administrators, public officials, leaders of trade groups and associations, labor leaders and insurance brokers and agents.

As you might expect, the ongoing contract dispute between Highmark and UPMC is a current topic of discussion at these sessions, and the messages I am receiving from everyone in the community are loud and clear. They want stability in the health care marketplace. They want the security of knowing that individuals and families with Highmark coverage will continue to have access to a facility or doctor of their choice.

They want the assurance that vital community assets such as the Hillman Cancer Center are available to everyone.

And, most of all, they want Highmark and UPMC to get down to the business of negotiating a new contract and working together to improve the quality and affordability of health care and to keep it accessible to everyone. Simply stated, they want collaboration for the common good, not conflict.



## WE TOTALLY AGREE

These issues are very important to Highmark. As a nonprofit company, we have a tradition of making health care coverage available to the entire community, including segments of the population that other health insurers will not insure. As the dispute between Highmark and UPMC has lingered, it has become clear to us that five core principles must guide the path to a solution. These principles reflect the best interests and shared values of our community.

**First, vital community assets must be available for the public good.** No health care organization or institution should be allowed to, or have the power to, limit access for millions of people to facilities that are viewed as critical community assets such as the Hillman Cancer Center, Western Psychiatric Institute and Magee-Womens Hospital. These institutions have been supported by taxes, taxpayer grants, local philanthropy and subscriber premiums, and they are not anyone's private property.

And yet some Highmark members, especially those with serious medical conditions who cannot obtain health insurance elsewhere, may be the most at risk if UPMC terminates its relationship with Highmark.

It would be unconscionable to let a Highmark member with lung cancer lose access to the Hillman Cancer Center or be unable to afford the cost of obtaining necessary medical treatment there because a health system decided to shut out this critical community asset from Highmark's provider network.

**The second principle is that nonprofit organizations exist primarily for the public good.** Nonprofit organizations like Highmark, and charitable organizations like UPMC, are supposed to cooperate toward goals that put the public interest first. In the case of health care, that means putting the patients' interests first.

Because of our efforts to work with the West Penn Allegheny Health System and other independent hospitals and physicians to preserve choice for our members, UPMC walked away from negotiations on a new contract. They have been very clear about this in their statements to the media.

We find their position interesting because UPMC has had a health insurance plan for more than 10 years. This means UPMC, as a health insurance company, has competed with Highmark for years. In fact, UPMC Health Plan now claims to have a membership total of more than 1.5 million people, which puts them second in the ranks of local insurers. Yet Highmark has not hesitated to work with UPMC as a health care provider, and we have always considered UPMC to be a vital part of Highmark's provider network.

Unfortunately, West Penn Hospital, Allegheny General and other hospitals in the West Penn Allegheny Health System have always been excluded from UPMC's health insurance plan.

**The third principle is that competition and choice should exist not only among health insurance companies, but also among health care providers.** While Highmark has always welcomed competition among health insurance companies, there must also be competition among viable health care delivery systems to hold the line on health care costs.

Let me explain the importance of provider competition a little more. Roughly 90 percent of health insurance premiums are used to pay for patient care such as doctor visits, hospital stays and prescription drugs.

Highmark's administrative costs and a small operating margin make up the remaining 10 percent. The public is beginning to understand that higher medical costs are the real driver of higher insurance rates.

The problem of higher medical costs is compounded when there is little provider competition in a market so that the cost of medical services is essentially set by one health system or hospital. Research shows that dominant health delivery systems use their market strength to obtain higher private insurance payment rates, which then directly translate into higher insurance premiums.

The bottom line is that our region needs multiple, viable health care delivery systems to assure choice in the health provider market and to effectively hold down medical cost increases. Our residents deserve the security that comes with knowing they can choose among multiple health care systems, independent hospitals, physicians and other health care providers that deliver high-quality care.

**The fourth principle is that the continuity of patient care must be preserved.** The threat by UPMC to terminate contracts with Highmark has raised concerns about the continuity of patient care for area residents and physicians, many of whom are your constituents. A recent survey by the Allegheny County Medical Society found that 80 percent of responding physicians said they believe that patients' access to care will be negatively impacted if Highmark and UPMC don't reach a contract agreement.

**The final principle is that preserving choice and competition boosts the economic vitality of Western Pennsylvania.** The health care sector is one of the key economic engines for the region. By maintaining multiple health systems in the region, we can save existing jobs and create more employment and stronger, more economically viable communities throughout Western Pennsylvania.

So how can UPMC and Highmark demonstrate they are representing the best interests of the community? The first step is for the two organizations to resume negotiations on a new contract as soon as possible. And I assure you today that Highmark is ready to resume talks with UPMC – anytime, anywhere.

Up until now, UPMC has offered Highmark only the hollow option of negotiating something akin to a divorce settlement. The community does not want this, and Highmark doesn't want it either. UPMC's approach clearly fails the tests I outlined earlier.

We have no interest in discussing end-of-contract issues. In fact, it is hard to understand why we would discuss end-of-contract issues when there is almost a year left on the current contract, plus a one-year run-out period through June 30, 2013, during which our members will continue to have access to UPMC and its physicians.

Our goal is to reach an agreement with UPMC that achieves a delicate balance. We want to fairly reimburse UPMC to provide proper quality care for the millions of members that we serve, but we also must maintain comprehensive and affordable health benefit programs for our customers.

UPMC, however, has demanded unacceptable reimbursement rates that would translate into significant increases in health care costs for the community and significant increases in local insurance premiums. Therefore, while Highmark is committed to continuing its longstanding relationship with UPMC, we also have an obligation to manage the cost of health care coverage on our customers' behalf.

In closing, we strongly believe that it is time to sit down with UPMC and work through our differences. We have both been down this path before, and we found a way to resolve it. History has taught us that Highmark and UPMC can do great things for this community when we work together. Just look at the new Children's Hospital in Bloomfield.

The two organizations now have another opportunity to work collaboratively on behalf of the community. Highmark has been ready and continues to be ready to negotiate a reasonable contract that gives our members access to UPMC hospitals and physicians into the future. If there is a need for a third party to mediate the contract negotiation process, we are open to that. We hope UPMC shares the same community outlook.

Thank you. Jim and I are ready to answer any questions the Committee may have.

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# Remarks on Highmark – UPMC Contract

## Pennsylvania House Insurance Committee

August 25, 2011

**Kenneth R. Melani, M.D.**  
President and Chief Executive Officer

**Deborah L. Rice**  
Executive Vice President  
Health Services Division

Good morning. My name is Ken Melani and I'm president and chief executive officer of Highmark. Joining me today is Deb Rice, our executive vice president of health services. Deb is responsible for providing senior leadership and strategic direction for our health insurance business. She is also responsible for provider contracting and Highmark's integrated clinical services.

While Deb will provide the main portion of Highmark's testimony this morning, I want to take just a brief moment to give my perspective on the issues that will be discussed today.

First, I'd like to thank Representative Sonney and the members of the Committee for convening today's hearing. It's my hope that sessions like this will enable us to have a clear dialogue, discuss the facts, and ultimately, provide peace of mind and security for the people of Western Pennsylvania when it comes to their health care needs.

In recent months, there has been a great deal of attention about the local health care marketplace – most notably, the status of Highmark's contract with UPMC and our plan to pursue an affiliation with the West Penn Allegheny Health System.

Both issues – our contract with UPMC and the affiliation with West Penn Allegheny – are critically important because they provide choices for the people of Western Pennsylvania. The region's hospitals are charitable institutions. They're not private property. They belong to the community and everyone deserves access to these vital facilities and the physicians who provide care.

For 75 years, Highmark has focused on a mission of making quality health care coverage available to everyone. Our members have placed their trust in us to provide them with access to the region's health care providers.

As we've stated repeatedly, Highmark is committed to looking for common ground and reaching a reasonable contract with UPMC so that our members continue to have access to UPMC's hospitals, physicians and other health care providers. The community expects us to work cooperatively on its behalf, and Highmark stands ready to do so.



Again, I want to thank the committee for conducting today's hearing. I'll be happy to address any questions you may have following Deb's remarks.

Thanks Ken. I, too, want to thank the Committee for inviting us here today.

In late June, I was very proud to stand with hundreds of doctors, nurses and staff of West Penn Allegheny Health System as they were told of a proposed partnership with Highmark. I was moved by this important moment because it showed what nonprofit organizations can and should do to meet the needs of our community. This investment demonstrates Highmark's commitment to the West Penn Allegheny Health System employees, patients and doctors who have relied on these storied hospitals for high-quality care and employment for more than a century.

As a nonprofit company with deep roots in Western Pennsylvania, Highmark could not stand aside and watch West Penn Hospital close its doors and allow the entire system to continue to falter. The negative consequences for our region would have been immeasurable.

We could not allow the 11,000 West Penn Allegheny Health System employees and their hundreds of thousands of patients to experience further uncertainty about the future of this important community asset.

I mention Highmark's proposed partnership with West Penn Allegheny Health System, which we hope will receive speedy state regulatory approval, because it is the stated reason for UPMC's refusal to negotiate a new contract with Highmark.

Every day, I meet with employers, hospital administrators, leaders of trade groups and associations, labor leaders and insurance brokers. Not surprisingly, the dispute between Highmark and UPMC is a hot topic of discussion. And almost universally, everyone is telling me the same thing: They want stability in the health care marketplace. They want the security of knowing that individuals and families with Highmark coverage will continue to have access to a facility or doctor of their choice. They want the assurance that vital community assets are available to everyone.

And, most of all, they want Highmark and UPMC to negotiate a new contract and work together to maintain access to high-quality and more affordable medical care. Simply stated, they want collaboration for the common good, not conflict for one's private advantage.

#### **WE TOTALLY AGREE**

As the dispute has lingered, it has become clear that the community expects these two nonprofit organizations to act as responsible, corporate citizens and follow some commonsense principles that reflect the best interests and shared values of our community.

**First, vital community assets must be available for the public good.** No health care organization or institution should be allowed to, or have the power to, limit access for millions of people to facilities that are viewed as critical community assets such as the Hillman Cancer Center, Western Psychiatric Institute, Magee-Womens Hospital and UPMC's community hospitals. These institutions have been supported by taxes, taxpayer grants, local philanthropy and subscriber premiums, and they are not anyone's private property.

And yet some Highmark members, especially those with serious medical conditions who cannot obtain health insurance elsewhere, may be the most at risk if UPMC terminates its relationship with Highmark.

It would be unconscionable to let a Highmark member with lung cancer lose access to the Hillman Cancer Center or a UPMC advanced care hospital, either because a health system arbitrarily decided to shut out an institution from Highmark's provider network or because of the prohibitive cost of obtaining necessary medical treatment from an out-of-network provider. In either scenario, the result is unacceptable.

**The second principle is that nonprofit organizations exist primarily for the public good.** Nonprofit organizations like Highmark, and charitable organizations like UPMC, are supposed to cooperate toward goals that put the public interest first. In the case of health care, that means putting the patients' interests first.

Because of our efforts to work with the West Penn Allegheny Health System and other independent hospitals and physicians to preserve choice for our members, UPMC walked away from negotiations on a new contract. They have been very clear about this in their statements to the media.

We find their position interesting because UPMC has had a health insurance plan for more than 10 years. This means UPMC, as a health insurance company, has competed with Highmark for years. In fact, UPMC Health Plan now claims to have a membership total of more than 1.5 million people, which puts them second in the ranks of local insurers. Yet Highmark has not hesitated to work with UPMC as a health care provider, and we have always considered UPMC to be a vital part of Highmark's provider network.

Unfortunately, West Penn Hospital, Allegheny General and other hospitals in the West Penn Allegheny Health System have always been excluded from UPMC's health insurance plan.

Moving forward, if Highmark and West Penn Allegheny Health System are successful in completing the affiliation, then West Penn Allegheny Health System will be open to contracts with all insurers, including UPMC Health Plan.

**The third principle is that competition and choice should exist not only among health insurance companies, but also among health care providers.** While Highmark has always welcomed competition among health insurance companies, there must also be competition among viable health care delivery systems to hold the line on health care costs.

Let me explain the importance of provider competition a little more. Roughly 90 percent of health insurance premiums are used to pay for patient care such as doctor visits, hospital stays and prescription drugs.

Highmark's administrative costs and a small operating margin make up the remaining 10 percent. This means that higher medical costs, which are driven by the demands of hospitals for payments from private insurance companies and by the increased use of medical services, are the main contributors to higher insurance rates.

The public is starting to understand the direct connection between higher medical spending and higher insurance rates.

The problem of higher medical costs is compounded when there is little provider competition in a market so that the cost of medical services is essentially set by one health system or hospital.

Research shows that dominant health delivery systems use their market strength to obtain higher private insurance payment rates, which then directly translates into higher insurance premiums.

We are already seeing this phenomenon in Western Pennsylvania where Highmark subscribers that are heavy users of UPMC have significantly higher health care costs on a per employee basis than members that do not use UPMC services as much.

The bottom line is that our region needs a choice of financially sound health care delivery systems and independent community providers to effectively let market forces hold down cost increases. Otherwise, as we are already seeing, a single, dominant system can demand unreasonable payment increases from all private health insurance companies, which this region can't afford.

In addition, our community needs the assurance that multiple resources are available for critical medical services. Imagine if the region only had one cardiac center or transplant program that had to be closed due to a fire, public safety issue or a government investigation. The people of Western Pennsylvania would be forced to travel to Cleveland, or another city, to get the care they need.

**The fourth principle is that the continuity of patient care must be preserved.** The threat by UPMC to terminate contracts with Highmark has raised concerns about the continuity of patient care for area residents and physicians. A recent survey by the Allegheny County Medical Society found that 80 percent of responding physicians said they believe that patients' access to care will be negatively impacted if Highmark and UPMC don't reach a contract agreement.

**The final principle is that preserving choice and competition boosts the economic vitality of Western Pennsylvania.** The health care sector is one of the key economic engines for the region. By maintaining multiple health systems in the region, we can save existing jobs and create more employment and stronger, more economically viable communities throughout Western Pennsylvania.

So how can UPMC and Highmark demonstrate that they are representing the best interests of the community? The first step is for the two organizations to resume negotiations on a new contract as soon as possible. And I assure you today that Highmark is ready to resume talks with UPMC – anytime, anywhere.

Up until now, UPMC has offered Highmark only the hollow option of negotiating something akin to a divorce settlement. The community does not want this, and Highmark doesn't want it either. UPMC's approach clearly fails the tests I outlined earlier.

We have no interest in discussing end-of-contract issues. In fact, it is hard to understand why we would discuss end-of-contract issues when there is almost a year left on the current contract, plus a one-year run-out period through June 30, 2013, during which our members will continue to have access to UPMC and physicians as in-network providers.

As is the case with any negotiations between a private insurance company and a health care system or hospital, there may be differences of opinion on the amount an insurer should pay a facility for the medical care it provides. If reimbursement is, in fact, the major hurdle to a new agreement, Highmark wants to sit down with UPMC to discuss those differences.

Our goal is to reach an agreement with UPMC that achieves a delicate balance: We want to fairly reimburse UPMC to provide proper quality care for the millions of members that we serve, but we must also maintain comprehensive and affordable health benefit programs for our customers.

UPMC, however, has demanded unacceptable reimbursement rates that would translate into significant increases in health care costs for the community and significant increases in local insurance premiums. Therefore, while Highmark is committed to continuing its longstanding relationship with UPMC, we also have an obligation to manage the cost of health care coverage on our customers' behalf.

In closing, we strongly believe that it is time to sit down with UPMC and work through our differences. We have both been down this path before and we found a way to resolve it. History has taught us that Highmark and UPMC can do great things for this community when we work together. Just look at the new Children's Hospital in Bloomfield.

The two organizations now have another opportunity to work collaboratively on behalf of the community. As Ken said, Highmark is ready, immediately, to negotiate a reasonable contract with UPMC that gives our members, many of whom are also your constituents, access to UPMC hospitals and physicians into the future.

If there is a need for a third party to mediate the contract negotiation process, we are open to that. We hope UPMC shares the same community outlook and stands ready to follow commonsense principles that reflect the best interests and shared values of our community.

Thank you. Ken and I are ready to answer any questions the Committee may have.

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# Remarks on West Penn Allegheny Health System Affiliation and Highmark – UPMC Contract

## Pennsylvania Senate Banking and Insurance Committee

September 22, 2011

**Kenneth R. Melani, M.D.**  
President and Chief Executive Officer

**Deborah L. Rice**  
Executive Vice President  
Health Services Division

Good morning. My name is Ken Melani and I'm president and chief executive officer of Highmark. Joining me today is Deb Rice, our executive vice president of health services. Deb is responsible for providing senior leadership and strategic direction for our health insurance business. She is also responsible for provider contracting and Highmark's integrated clinical services.

While Deb will provide the main portion of Highmark's testimony this morning, I want to take just a brief moment to give my perspective on the issues that will be discussed today.

First, I'd like to thank Chairman White and other members of the Committee for convening today's hearing. It's my hope that sessions like this will enable us to have a clear dialogue, discuss the facts, and ultimately, ease the concerns for the people of Western Pennsylvania when it comes to their health care needs.

In recent months, there has been a great deal of attention about the Western Pennsylvania health care marketplace – most notably, the status of Highmark's contract with UPMC and our plan to pursue an affiliation with the West Penn Allegheny Health System.

For 75 years, Highmark has focused on a mission of making quality health care coverage available to everyone. Our members have placed their trust in us to provide them with greater choice and access to all of the region's health care providers. That's why both issues – our contract with UPMC and the affiliation with West Penn Allegheny – are critically important because they provide choices for the people of Western Pennsylvania. The region's hospitals are charitable institutions. They're not private property. They belong to the community and everyone deserves access to these vital facilities and the physicians who provide care.

As you are well aware, health care is undergoing tremendous change. Some of it is driven by market forces. Some of it is driven by health care reform. We welcome change to improve access to high-quality and affordable health care services. But we don't need change that restricts access to necessary medical services and disrupts continuity of care for hundreds of thousands of people in our communities, which would be the end result of UPMC's refusal to contract with Highmark.



Instead, we should build on the strengths of our current system such as preserving the tradition of choice for individuals and families when selecting a hospital or a doctor while also moving to improve the system by better aligning financial incentives to encourage the delivery of the best possible care and providing more information about the cost and quality of medical services so consumers are better able to make more informed choices.

We should also ensure that physicians and other caregivers can continue to refer their patients to the best services that our communities have to offer, rather than have a health system or health plan limit access by excluding certain hospitals or practitioners from its networks.

So as you hear the sharply different viewpoints today by Highmark and UPMC, ask yourself this question: Which approach is in the best interests of your constituents and the region as a whole?

We believe the Highmark vision clearly sets the right direction for Western Pennsylvania. It marries the best of the past with the needs of the future and reflects the shared interests of the community: maintaining individual and family choice, preserving access to community assets and shifting the emphasis in health care from maximizing revenue to better patient outcomes and a better patient experience.

Our vision is in step with the more active role of individual consumers and families in health care decision-making. Individuals want more choice – not less choice – when selecting hospitals, physicians and other health care professionals to meet their changing medical and financial needs.

Provider choice is a very personal decision. When a large health system decides that its hospitals and doctors are no longer part of one insurance company's network, it is of little solace to members with that health plan that their employer offers other health plans. These individuals have lost the freedom of selecting a doctor or hospital of their choice. This is especially problematic in rural markets – such as Oil City or Bedford – that have only one hospital in a large geographic area.

As we've stated repeatedly, Highmark is committed to looking for common ground and reaching a reasonable contract with UPMC to preserve access to UPMC's hospitals and physicians and other health care providers. The community expects us to work cooperatively on its behalf – and Highmark stands ready to do so.

We are also ready and able to move forward with our affiliation with West Penn Allegheny Health System. We are totally committed to making this partnership work on behalf of our customers and all of Western Pennsylvania. But I cannot overstate one important point: The state must act quickly to review and approve this transaction so we can move rapidly to maintain provider choice in our region and have real competition among viable health care delivery systems to hold the line on health care costs.

Again, I want to thank the committee for conducting today's hearing. I'll be happy to address any questions you may have following Deb's remarks.

Thanks Ken. I, too, want to thank the Committee for inviting us here today.

In late June, I was very proud to stand with hundreds of doctors, nurses and staff of West Penn Allegheny Health System as they were told of a proposed partnership with Highmark.

I was moved by this important moment because it showed what nonprofit organizations can and should do to meet the needs of our community. This investment demonstrates our commitment to the West Penn Allegheny Health System employees, doctors and community residents who have trusted these storied hospitals for high-quality care and employment for more than a century.

As a nonprofit company, with deep roots in Western Pennsylvania, Highmark could not stand aside and watch West Penn Hospital close its doors and allow the entire system to continue to falter. The negative consequences for our region would have been immeasurable.

We could not allow the 11,000 West Penn Allegheny Health System employees and their hundreds of thousands of patients to experience further uncertainty about the future of this important community asset. And yet, our proposed partnership with West Penn Allegheny Health System is the stated reason for UPMC's refusal to negotiate a new contract with Highmark.

Based on the discussion at last week's hearing, we realize that members of the Committee have lots of questions about our affiliation with the West Penn Allegheny Health System. At the outset, I want to be clear: We have an unwavering commitment to make this partnership work and preserve the long-term viability of the West Penn Allegheny Health System.

This system will succeed if it is given a fair chance. Achieving this goal will take some time, but we are already assembling a skilled team of people with many years of expertise in operating successful hospital systems. If the state rapidly approves the transaction, we can institute operating efficiencies and quickly improve the system's financial soundness, which will enable West Penn Allegheny Health System to meet all of its financial obligations and continue to provide excellent patient care.

There has been lots of talk about how Highmark will operate as an integrated delivery and financing system in the future with the West Penn Allegheny Health System as the hub. And at this point, this talk is pure speculation. We are still in the early stages of putting together the different components of our system. But one thing we can say with certainty is that this system will be driven by a focus on the patient experience, good medical outcomes and efficiency.

In contrast to UPMC's monopolistic model — and UPMC has admitted publicly that it is a monopoly — Highmark's system will be built on collaboration. We intend to work cooperatively with independent community hospitals and both independent primary care and specialty physician group practices to align payment incentives to support the delivery of evidence-based care, share technology investments and assist providers to better manage and coordinate the care of people with chronic medical conditions.

Our integrated delivery and financing system will not exclude certain hospitals and will not encourage physicians to perform more tests and more procedures to maximize revenue. Moving forward, if Highmark and West Penn Allegheny Health System are successful in completing their affiliation, then West Penn Allegheny Health System will be open to contracts with all insurers, including UPMC Health Plan.

At the same time that we are eager to develop a new, innovative model of delivering care for the people of Western Pennsylvania, we remain committed to reaching a new agreement with UPMC.

Not surprisingly, the dispute between Highmark and UPMC is a topic of discussion everywhere in our region. At town meetings, in letters to the editor, on radio talk shows, Western Pennsylvanians are expressing frustration, fear and insecurity about whether they will continue to have access to the hospital and doctor of their choice. They worry about having to reluctantly search for new providers due to the exclusionary tactics of UPMC.

The stories are heart-wrenching. I have heard from cancer patients who already are struggling every day with medical suffering caused by their illness as well as the emotional impact on themselves and their loved ones.

And then add to all this, they now worry about losing access to the Hillman Cancer Center or a UPMC advanced care hospital, either because a health system arbitrarily decides to shut out an institution from Highmark's provider network or because of the prohibitive cost of obtaining necessary medical treatment from an out-of-network provider. In either scenario, the result is unacceptable and lacks compassion.

Many providers are frustrated as well. Take the case of an owner of an independent physical therapy clinic who has tried many times, unsuccessfully, during the past 15 years to join the UPMC physical therapy network. As UPMC buys more physician practices, her PT clinic has received fewer and fewer patients from UPMC doctors, who refer patients only to UPMC-owned physical therapy centers. Now she is worried that her center may not survive because some of her other patients with non-Highmark coverage will be steered only to UPMC physical therapy centers.

The voice of Western Pennsylvania residents is loud and clear. They want Highmark and UPMC to negotiate a new contract and work together to maintain access to high quality and more affordable medical care. Simply stated, they want collaboration for the common good, not conflict for one's private advantage.

## WE TOTALLY AGREE

As the dispute has lingered, it has become clear that the community expects these two nonprofit organizations to act as responsible corporate citizens and follow some commonsense principles that reflect the best interests and shared values of our community.

**First, vital community assets must be available for the public good.** No health care organization or institution should be allowed to, or have the power to, limit access for millions of people to expertise available at critical community assets such as Hillman Cancer Center, Western Psychiatric Institute, Magee Womens Hospital and UPMC's community hospitals. These institutions have been supported by taxes, taxpayer grants, local philanthropy and subscriber premiums – and they are not anyone's private property.

And who stands to suffer the most if UPMC follows through on its threats? Highmark members with serious medical conditions who are not covered by an employer plan and can get health insurance only from Highmark. They would essentially be excluded from UPMC's specialty and advanced care hospitals because they can't afford the very high cost of expensive medical care at a non-network provider.

**The second principle is that nonprofit organizations exist primarily for the public good.** Nonprofit organizations like Highmark, and charitable organizations like UPMC, are supposed to cooperate toward goals that put the public interest first. In the case of health care, that means putting the patients' interests first.

Because of our efforts to work with the West Penn Allegheny Health System and other independent hospitals and physicians to preserve choice for our members, UPMC walked away from negotiations on a new contract. They have been very clear about this decision.

We find their position untenable because UPMC has had a health insurance plan for more than 10 years. This means UPMC, as a health insurance company, has competed with Highmark for years. In fact, UPMC Health Plan now claims to have a membership total of more than 1.5 million people, which puts it second in the ranks of local insurers.

Yet Highmark has not hesitated to work with UPMC as a health care provider, and we have always considered UPMC to be a vital part of Highmark's provider network.

Unfortunately, West Penn Hospital, Allegheny General and other hospitals in the West Penn Allegheny Health System have always been excluded from UPMC's health insurance plan.

**The third principle is that competition and choice should exist not only among health insurance companies but also among health care providers.** While Highmark has always welcomed competition among health insurance companies, there must also be competition among viable health care delivery systems to hold the line on health care costs.

Let me explain the importance of provider competition a little more. Roughly 90 percent of health insurance premiums are used to pay for patient care such as doctor visits, hospital stays and prescription drugs.

Highmark's administrative costs and a small operating margin make up the remaining 10 percent. This means that the rise in health insurance premiums is being driven by higher medical costs. The problem of higher medical costs is compounded when there is little provider competition in a market so that the cost of medical services is essentially set by one health system or hospital.

Research shows that dominant health delivery systems use their market strength to obtain higher private insurance payment rates, which then directly translate into higher insurance premiums.

We are already seeing this phenomenon in Western Pennsylvania where Highmark subscribers who are heavy users of UPMC services have significantly higher health-care costs on a per employee basis than members who do not use UPMC services as much.

In short, our region needs a choice of financially sound health-care delivery systems and independent community providers to effectively let market forces hold down cost increases.

Otherwise, as we are already seeing, a single, dominant system like UPMC can demand unreasonable payment increases from all private health insurance companies, which this region can't afford.

**The fourth principle is that the continuity of patient care must be preserved.** UPMC has tried to downplay the fact that its refusal to contract with Highmark will seriously disrupt continuity of patient care. Consumers who have switched their doctors and health plan can tell you how unsettling this process can be to their well-being. In fact, a recent survey by the Allegheny County Medical Society found that 80 percent of responding physicians said they believe that patients' access to care will be negatively impacted if Highmark and UPMC don't reach a contract agreement.

The bottom line is that Western Pennsylvanians shouldn't be forced to switch doctors and insurance companies to preserve access to nonprofit community assets.

**The final principle is that preserving choice and competition boosts the economic vitality of Western Pennsylvania.** The health care sector is one of the key economic engines for the region. By maintaining multiple health systems in the region, we can save existing jobs, and create more employment and stronger, more economically viable communities throughout Western Pennsylvania.

So how can UPMC and Highmark demonstrate that they are representing the best interests of the community? The first step is for the two organizations to resume negotiations on a new contract as soon as possible. And as we have said many times, Highmark is ready to resume new contract talks with UPMC — anytime, anywhere.

Up until now, UPMC has offered Highmark only the hollow option of negotiating something akin to a divorce settlement. The community does not want this, and Highmark doesn't want it either.

We have no interest in discussing end-of-contract issues. In fact, it is hard to understand why we would discuss end-of-contract issues when there is almost a year left on the current contract, plus a one-year run-out period through June 30, 2013, during which our members will continue to have access to UPMC and physicians as in-network providers.

As is the case with any negotiations between an insurance company and a health care system or hospital, there may be differences of opinion on the amount an insurer should pay a facility for the medical care it provides. If reimbursement is, in fact, the major hurdle to a new agreement, Highmark wants to sit down with UPMC to discuss those differences.

Our goal is to reach an agreement with UPMC that achieves a delicate balance: We want to fairly reimburse UPMC to provide proper quality care for the millions of members that we serve, but we also must maintain comprehensive and affordable health benefit programs on behalf of our customers. UPMC, however, has demanded unacceptable reimbursement rates that would translate into significant increases in health care costs for the community and significant increases in local insurance premiums.

In closing, we strongly believe that it is time to sit down with UPMC and work through our differences. We have both been down this path before and we found a way to resolve it. History has taught us that Highmark and UPMC can do great things for this community when we work together. Just look at the new Children's Hospital in Pittsburgh.

As Ken said, Highmark is ready, immediately, to negotiate a reasonable contract with UPMC that gives our members, many of whom are also your constituents, access to UPMC hospitals and physicians into the future.

If there is a need for a third party to mediate the contract negotiation process, we are open to that. We hope UPMC shares the same community outlook and follows commonsense principles that reflect the best interests and shared values of our community.

Thank you. Ken and I are ready to answer any questions the Committee may have.