



October 4, 2013

Jack M. Stover, Esquire  
Buchanan Ingersoll & Rooney PC  
One South Market Square  
213 Market Street, 3<sup>rd</sup> Floor  
Harrisburg, PA 17101-2121

RE: Highmark's advertisements and statements regarding loss of "thousands" of jobs if Highmark does not continue to have a contract with UPMC

Dear Mr. Stover:

It has come to the Department's attention that Highmark has issued advertisements and has made other statements to the effect that "thousands" of jobs will be lost in Western Pennsylvania if Highmark does not continue to have a contract in effect with UPMC after December 31, 2014. For example, in a recent advertisement the spokesperson for Highmark stated:

"Yet, unfortunately under UPMC's plan, local families who want in-network access to both UPMC and the Allegheny Health Network will be forced to buy their health care insurance from out-of-state companies. That will result in the loss of thousands of critical jobs right here in Western Pennsylvania. And that's something we just can't afford."<sup>1</sup>

These statements appear to be inconsistent with information supplied by Highmark to the Department in the course of the Department's consideration of the Form A approved by the Department in the Approving Determination and Order issued on April 29, 2013, Order No. ID-RC-13-06 (the "Order").

A projected significant loss of employment is a material factor that should have been disclosed in the Form A. The Department is not aware of disclosure by Highmark in the Form A indicating that a significant reduction in employment was a potential consequence of Highmark's inability to secure a contract with UPMC beyond December 31, 2014. The omission of this information raises the question of whether the above statements are accurate; or, if accurate, to what extent, if any, Highmark believes the information was disclosed in the Form A for the Department's consideration.

As part of the Form A filing, Highmark supplied the Department with financial projections covering the years 2012 to 2016 based upon the assumption that the West Penn affiliation would be completed. These financial projections included a specific scenario assuming that UPMC ceased to be an in-network provider for Highmark's customers after December 31, 2014. Although Highmark did not specify anticipated employment levels within these projections, the financial projections appear to be inconsistent with an underlying assumption of significant reductions to Highmark's workforce if UPMC ceases to be an in-network provider for Highmark customers after December 31, 2014:

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<sup>1</sup>Highmark advertisement titled "Remember" at <http://www.youtube.com/watch?v=HXJwHwUYry0&feature=c4-overview&list=UU9sqS7WBFFxGg5LdUUZaWdw>

- Total Highmark operating revenue was projected to increase from \$14.9 billion in 2012 to \$17.5 billion in 2016, representing a total increase of approximately 18% and an annual increase of over 4%.
- Total Highmark operating expense includes salary and wages, among other items, was projected to increase from \$14.4 billion in 2012 to \$17.0 billion in 2016, representing a total increase of approximately 18% and an annual increase of over 4%

The above projections were filed by Highmark with the Department and are summarized on page 49 of Blackstone's report dated April 25, 2013.<sup>2</sup> Approval of the Form A filing was granted based on information provided by Highmark that assumed either that UPMC would remain in-network after December 31, 2014 or that UPMC would be out-of-network after December 31, 2014.

The Department has not taken and does not take a position as to whether a new contract should be entered into between Highmark and UPMC. However, the Department is very concerned to see public statements by Highmark that appear to be inconsistent with information supplied by Highmark to the Department.

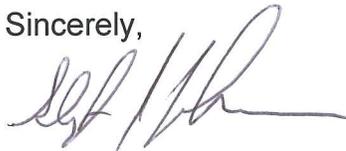
The Department requests that Highmark immediately explain the following:

1. How are statements made by Highmark regarding losses of "thousands" of jobs consistent with the information Highmark filed with the Department in the course of the Department's consideration of the Form A filing?
2. If Highmark and UPMC do not have a contract after December 31, 2014 and Highmark is correct that "thousands" of jobs will be lost as a result, what will be the financial effect of such job losses (and the loss of business to Highmark necessitating such a reduction in employment) on Highmark and other Domestic Insurers as defined in the Order?

The Department will review the information supplied by Highmark in response to this letter to determine further action, including possible action under the Order.

Please respond fully to the questions raised in this letter by close of business October 9, 2013.

Sincerely,



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

<sup>2</sup> See report of Blackstone available on the Department's website as document number 1402, [http://www.portal.state.pa.us/portal/server.pt/community/industry\\_activity/9276/highmark\\_\\_\\_west\\_penn\\_cumulative\\_log/1036250](http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/highmark___west_penn_cumulative_log/1036250).