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Corporate & Financial Regulation

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Pennsylvania
Insurance Department

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March 9, 2015

VIA HAND DELIVERY

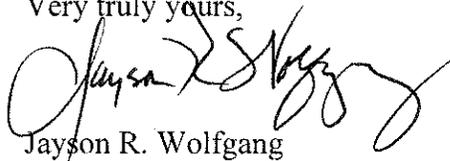
Mr. Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

**Re: Highmark Inc.
Request for Approval of a Transaction Pursuant to Condition 11
of the Approving Determination and Order and 40 P.S. § 991.1405**

Dear Deputy Commissioner Johnson:

I am hand delivering herewith a Request for Approval of the Transaction referenced above.

Very truly yours,



Jayson R. Wolfgang

JRW/cb

Enclosure

**REQUEST FOR APPROVAL
of a Financial Commitment
Pursuant to Condition 11(C)
of the
Approving Determination and Order
Issued by the Commissioner
Dated April 29, 2013
Order No. ID-RC-13-06
and
40 P.S. § 991.1405**

**Filed with the
Pennsylvania Insurance Department
by**

**HIGHMARK INC.
120 Fifth Avenue
Fifth Avenue Place
Pittsburgh, PA 15222**

**NAIC Group Code: 00812
NAIC Company Code: 54771
State of Domicile: Pennsylvania**

March 9, 2015

Name, title, address, telephone number, and fax number of the individual to whom notices and correspondence concerning this Notice should be addressed:

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ITEM 1: IDENTITY OF PARTIES TO THE NOTICE

- (A) The party giving notice is Highmark Inc. (“Highmark”).
- (B) The registered address and principal executive office address of Highmark is 1800 Center Street, Camp Hill, PA 17011.
- (C) Highmark, a Pennsylvania nonprofit corporation, is organized on a non-stock membership basis and has no voting securities. Highmark Health, a Pennsylvania nonprofit corporation, is the sole member of Highmark.
- (D) The principal nature of Highmark’s business is maintaining and operating a nonprofit hospital plan and a nonprofit professional health services plan.
- (E) Allegheny Health Network (“AHN”), a Pennsylvania nonprofit corporation, is an affiliate of Highmark and Highmark Health is the sole member of AHN.

ITEM 2: A. INFORMATION WITH RESPECT TO THE REQUEST FOR APPROVAL

Background

Highmark entered into an Affiliation Agreement (the “Affiliation Agreement”) dated as of October 31, 2011, as amended as of January 22, 2013, together with UPE, a Pennsylvania nonprofit corporation, now known as Highmark Health, and UPE Provider Sub, a Pennsylvania nonprofit corporation, now known as Allegheny Health Network (collectively, the “Highmark Health Parties”), and West Penn Allegheny Health System, Inc. (“WPAHS”), Canonsburg General Hospital, Alle-Kiski Medical Center and other WPAHS affiliates (collectively, the “WPAHS Parties”) pursuant to which the UPE Parties and the WPAHS Parties agreed to enter into an affiliation transaction that formed an integrated health care financing and delivery system (“IDN”) now operating in Western Pennsylvania. The affiliation transaction was consummated on April 29, 2013.

In creating and developing the IDN, a principal component of Highmark’s strategy has been to build and expand access and service for its subscribers and policyholders in order to maintain choice and competition in the healthcare marketplace and ultimately create an overall better patient experience.

In support of the IDN, Highmark is able to provide funding to AHN via grants as it has as part of its past common practice with various other healthcare providers throughout Pennsylvania.

The Affiliation Agreement originally submitted to the Department contemplated an estimated cost of approximately \$1 billion to build the IDN. Certain of these funds have been used to help fill gaps in patient care, as well as provide care closer to communities in which Highmark subscribers reside.

Specifically for WPAHS, various critical investments were made at West Penn Hospital (“WPH”) to improve the emergency department along with cardiac and women’s health capabilities. Additionally, funds were used to build-out trauma capabilities at Forbes Hospital (“FH”), to install a hybrid operating room at Allegheny General Hospital (“AGH”), and to provide various other critical equipment, renovations and information technology enhancements across WPAHS. A certain amount of these funds were also needed to cover operational cash flow needs at WPAHS based on the steep turnaround that was required.

Further evaluation of the Western Pennsylvania healthcare delivery market in light of the UPMC contract expiration indicates a need for additional capital investments to ensure accessible, affordable and quality healthcare to Highmark’s insureds. AHN has increased its capital investment plan in comparison to the original capital investment plan filed with the Department. Each of these initiatives bears a direct correlation to help fill in certain service line gaps in the IDN and fulfills Highmark’s strategy of expanding access and service for its subscribers in order to maintain choice and competition in the marketplace, the end result of which is to create a better patient experience. At this time, AHN is not able to make all of these critical investments without additional funding from Highmark.

Financial Commitment

In order to further develop and expand the IDN to better meet the needs of AHN patients and to fill care and access gaps across the region, AHN’s capital investment plan has been revised and requires increased funding. As part of its turnaround, AHN targets maintaining a certain minimum days’ cash on hand. Recent utilization trends in the region have led to lower volumes than previously anticipated. While AHN and WPAHS are performing in anticipated ranges, the level of cash flow at these entities is not sufficient to adequately fund all of the capital expansion that is necessary while maintaining the desired days’ cash on hand. To adequately support the capital investment plan needed to provide capabilities and access for Highmark subscribers, AHN requires an additional \$175 million of funding to allow it to develop these critical capabilities and still maintain the desired days’ cash on hand.

Highmark has the financial stability to provide the additional \$175 million of funding and maintain risk-based capital (“RBC”) through 2017 well within a range deemed to be appropriate by the Department.

Additionally, in the event of a significant downside scenario, Highmark remains financially sound with RBC deemed to be appropriate by the Department.

The Financial Commitment will be a grant or grants of up to \$175 million. The proposed effective date for approval of the Financial Commitment is March 15, 2015.

Value of Capital Investments to Highmark and its Subscribers

The Financial Commitment will be used to fund additional capital investments at AHN in order to continue to enhance the level of services, capabilities and access for AHN patients and Highmark subscribers. This is consistent with the original vision and strategy when Highmark created and developed the IDN with AHN as its provider system. The targeted areas that will receive funding include women's health and prenatal care, outpatient centers, trauma and emergency services, and system-wide renovations and enhancements, including those at WPH and AGH.

ITEM 3: NOTICE

Pursuant to Condition 11(C) of the Approving Determination and Order issued April 29, 2013 and 40 P.S. § 991.1405, Highmark hereby requests approval of the Financial Commitment described in Item 2 above.

ITEM NO. 4: SIGNATURE AND CERTIFICATION

Highmark Inc. has caused this Request to be duly signed on its behalf in the City of Pittsburgh and Commonwealth of Pennsylvania on the 9th day of March, 2015.

HIGHMARK INC.

By: Deborah L. Rice-Johnson
Deborah L. Rice-Johnson

Title: President, Highmark Inc.

Attest:

By: Brian Setzer
Brian Setzer

Title: SVP, CFO Highmark Health Plans

CERTIFICATION

The undersigned deposes and says that he/she has duly executed the attached Request dated March 9, 2015 for and on behalf of Highmark Inc.; that he/she is the President of Highmark Health Plan; and that he/she is authorized to execute and file such instrument. Deponent further says that he/she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

Signature: Deborah L. Rice-Johnson
Typed Name: Deborah L. Rice-Johnson