

Highmark's Form A Regarding the Acquisition of Control of BCNEPA and Subsidiaries

TAB E

Overview of Highmark Business Perspective

**OVERVIEW OF HIGHMARK INC.'S PERSPECTIVE ON A MERGER WITH
HOSPITAL SERVICE ASSOCIATION OF NORTHEASTERN PENNSYLVANIA d/b/a
BLUE CROSS OF NORTHEASTERN PENNSYLVANIA**

A. Introduction

Highmark Inc. (“Highmark”) believes that a merger of Hospital Service Association of Northeastern Pennsylvania d/b/a Blue Cross of Northeastern Pennsylvania (“BCNEPA”) with and into Highmark will be beneficial to BCNEPA, to the residents of northeastern Pennsylvania and to Highmark and its customers and subscribers. Among other things, Highmark believes that the merger will provide long-term opportunities for consumers to maintain access to seamless, high-quality, cost-competitive and understandable products, effective population health management programs and broad access to regional providers.

For a number of years, Highmark has been investing, and it is now considered a national leader, in retail and population health management programs that are necessary to compete effectively in the health insurance market following the enactment of the Affordable Care Act (“ACA”). In the increasingly cost-conscious and consumer-centric market that exists today, delays in responding to changes in the competitive environment and to market demands for affordable and innovative products can have significant negative consequences. Highmark has implemented an efficient and flexible organizational structure and business strategy that can quickly adapt to changing regulatory mandates and accommodate the introduction of competitive capabilities within months rather than years. Highmark has the scale, capabilities and experience to address and ensure the long-term availability of affordable and high-quality health care to its customers and, with the proposed merger, to consumers in the northeastern Pennsylvania region.

By contrast, BCNEPA's smaller size and lack of scale challenge its ability to make the necessary investment in similar required retail, wholesale and population health management capabilities, a fact that is further compounded by the highly competitive health insurance environment in northeastern Pennsylvania. BCNEPA's size, scale and inability to control health care costs in a consolidating market, coupled with its administrative cost structure, threaten its long-term ability to compete effectively with other insurers in its service area (the "BCNEPA Service Area"¹.) During periods of rapid change, such as those currently facing insurers as a result of the ACA, the disadvantages faced by plans of BCNEPA's size and scale become more acute. Thus, BCNEPA will be further challenged in the ACA market to maintain its current financial strength and pursue its mission in the long-term.

A merger of BCNEPA and Highmark will assure that the needs of consumers in the BCNEPA Service Area are supported by a company with a strong commitment to social mission and an ability to make meaningful contributions to local communities, both individually and through a diverse portfolio of companies that, in combination, offer economic strength and employment potential. Highmark believes that it is uniquely positioned to meet BCNEPA's needs as it seeks to continue to pursue its vital mission of serving the residents of northeastern Pennsylvania.

From Highmark's perspective, a merger with BCNEPA also fulfills a strategic imperative in that it supports Highmark's goal of assuring that consumers have access to innovative, high-quality and high-value products and services offered by a financially stable health plan with sufficient

¹ The BCNEPA Service Area consists of the counties of Wayne, Pike, Monroe, Carbon, Luzerne, Lackawanna, Wyoming, Susquehanna, Bradford, Sullivan, Lycoming, Clinton and Tioga.

scale and scope, and a competitive cost structure, to succeed, and to continue to serve local communities.

B. Background and Approach that Position the Merged Companies for Success

Highmark's ownership interest in significant portions of BCNEPA's Blue-branded business,² its experience and competence with Blue Plan affiliations, its efficient operating platform and innovative product and service offerings, and its current contractual arrangements, whereby it provides BCNEPA with substantial systems and data center services, are at the core of its merger proposal. Highmark believes that a merger of BCNEPA and Highmark will enable the least disruptive and most efficient transition of the BCNEPA business to a strong, financially stable partner with the resources and demonstrated experience to assure the continuation of BCNEPA's mission in both the near-term and the long-term and its commitments to the communities that BCNEPA serves.

In addition, Highmark believes that its current Blue-branded products and position in the contiguous counties that border the BCNEPA Service Area, its broad professional network, its commitment to other service areas through its commercial and government business segments, and its ownership of a diversified portfolio of dental, vision and stop loss companies, will assure the best possible positioning of the Blue brand in the BCNEPA Service Area, as well as best serve the regional employment and other needs of the northeastern Pennsylvania community.

² Highmark holds a 40% stock interest in BCNEPA's subsidiary HMO of Northeastern Pennsylvania, Inc. d/b/a First Priority Health ("FPH") and a 40.1% interest in BCNEPA's subsidiary First Priority Life Insurance Company, Inc. ("FPLIC").

Highmark understands the unique challenges of the BCNEPA Service Area and has taken actions to address many of these challenges in its own core service areas in western and central Pennsylvania, as well as in the service areas of its affiliated Blue Plans in Delaware and West Virginia. Highmark understands the complexities of the northeastern Pennsylvania region with its relatively smaller population and few large employers and its relatively high percentage of participants in government-sponsored programs, as well as its large BlueCard membership. Highmark also understands how BCNEPA's scale makes relationships with larger integrated delivery networks ("IDNs") and provider systems more difficult to navigate and the impacts that the dynamics in the BCNEPA Service Area can have on long-term access by consumers to high-quality and affordable health care services.

Highmark's vision for the northeastern Pennsylvania area is to continue the long-standing commitments of BCNEPA to its policyholders/subscribers, its employees and the communities that BCNEPA has served for more than 75 years. Highmark believes that merging BCNEPA with Highmark will ensure the long-term financial stability of Blue-branded business, consumer access to innovative products and services and broad provider networks in the region. The merger also will allow Highmark to gain additional economies of scale that will produce synergies and benefits not only for customers/subscribers in the BCNEPA Service Area, but also in Highmark's other service areas as well.

Upon closing of the proposed merger, the business, assets, plan operations and employees of BCNEPA will be integrated with and into the Highmark business, systems and operations.

Highmark will continue to maintain operations and facilities in Wilkes-Barre and, initially, current BCNEPA employees will continue to primarily support the business of the combined entity in the current BCNEPA Service Area. All functions and responsibilities will be centrally directed within Highmark but will be supported by local market-facing personnel in sales, provider services and operations. Over time, northeastern Pennsylvania-based Highmark employees likely will also support business from other Highmark service areas and business segments.

In order to assure a smooth transition of BCNEPA operations into Highmark, the merger agreement provides for the establishment, during the first four years following closing, of a regional Advisory Board consisting of the current 15 BCNEPA Board members, three (3) Highmark representatives and the market President for the northeastern Pennsylvania region. The Advisory Board will support the management team, facilitate the transition of business and employees to Highmark systems and processes and help assure that the merged company maintains an appropriate focus on local community needs during the transition period. Four members of the current BCNEPA Board also will be elected to the Highmark Board of Directors to assure that the viewpoints of Highmark's merger partner are heard at the highest levels of the company.

Highmark will apply its management experience and utilities from Blue Plan affiliations in Delaware and West Virginia to support the transition and integration of the BCNEPA business and employees into Highmark. Highmark believes that these resources and transition experiences, in conjunction with BCNEPA's current use of Highmark's data center and select

information systems, will facilitate a smooth transition and lower the overall cost of the transition. These experiences and utilities also will lessen the risk of disruption to the business during and after the merger.

C. **Advantages of the Proposed Merger for Highmark**

Highmark believes that the advantages to Highmark of the proposed merger include the following:

- The merger will preserve Highmark's existing business interests in the northeastern Pennsylvania region and surrounding contiguous service areas where Highmark already has subscribers.
 - More seamless product offerings, health and wellness programs, administration and provider network across the two currently independent service areas.
 - Creates a more efficient operation serving the needs of the current BCNEPA and surrounding service areas.
- The merger will assure the continuation and improvement of the technology and business arrangements that currently exist with regard to the BCNEPA business which generate significant annual contribution toward Highmark's fixed costs for IT.
- The merger will enhance the opportunity to moderate care cost trends in the BCNEPA Service Area and contiguous counties through the introduction of new reimbursement and incentive programs with independent providers and systems that span the I-80 corridor.

- The merger will further diversify and strengthen Highmark’s financial and product portfolio outside of the western and central Pennsylvania service areas for its health insurance business as well as its diversified businesses that offer dental, vision and stop loss products and services.
- The merger will position Highmark to better serve its large regional and national employers with employees and operations in multiple locations in Pennsylvania.
- The merger will position Highmark to participate more effectively in federal- and state-sponsored health insurance programs.
- The merger will increase Highmark’s access to talent and work force that is culturally aligned and experienced in the use of Highmark systems.

D. Highmark’s Business Rationale for the Merger

1. Continue Highmark’s existing business and financial interests in the BCNEPA business and the BCNEPA Service Area.

For more than 75 years, Highmark and its predecessor companies have maintained strong ties to BCNEPA and its unwavering commitment to the health, wellness and availability of affordable care for consumers in the northeastern Pennsylvania region. With independent but consistent and shared missions, Highmark and BCNEPA have worked together in various forms of business partnership to effectively and efficiently serve the northeastern Pennsylvania region and the contiguous counties also served by Highmark.

This longstanding partnership with BCNEPA and Highmark's business interests in northeastern Pennsylvania are built around four primary contractual arrangements that are important to the financial and strategic objectives of both companies. These contractual arrangements with Highmark support the majority of BCNEPA's Blue-branded business, including commercial as well as CHIP, and include:

- Highmark's 40 percent equity ownership in two of BCNEPA's key subsidiaries representing the majority of BCNEPA's Blue-branded book of business.
- Highmark and BCNEPA's joint administration of Blue Cross Blue Shield insurance products.
- Highmark's administration of the Medicare Advantage product offered in the BCNEPA Service Area through a risk-sharing arrangement. with BCNEPA
- Highmark's role as BCNEPA's primary supplier of data center, claims and BlueCard processing and other shared services that provide the infrastructure required to administer BCNEPA's business.

The above arrangements are important not only to meeting the health insurance needs of several hundred thousand Blue subscribers and BlueCard users administered by BCNEPA, but also in supporting Highmark's business interests. The contribution of these arrangements to Highmark in terms of economies of scale and portfolio diversification are important to the financial strength and stability of Highmark in its other core local service areas of central and western Pennsylvania, and in the service areas of Highmark's Delaware and West Virginia affiliates. Many Highmark national account customers already have subscribers residing throughout Pennsylvania including in the BCNEPA Service Area. A merger of BCNEPA and Highmark

will strengthen Highmark's ability to compete effectively with larger commercial carriers across all regions of Pennsylvania where these employers have business operations.

a. Financial Diversification

The direct annual financial contribution of the existing contractual arrangements and shared services between BCNEPA and Highmark has helped offset the significant investments required to compete effectively in the health insurance market. In addition to health plan services, Highmark's dental and vision companies have significant business that is domiciled in the BCNEPA Service Area.

b. Synergies and Administrative Efficiencies

The merger of BCNEPA into Highmark is expected to produce significant financial savings that will directly affect care and administrative cost trends to the consumer over the longer term. These synergies will be driven by Highmark's ability to use the experience it gained in previous transactions to quickly transition BCNEPA's current business to Highmark's underlying business processes and computing platform, to gain economies of scale through Highmark's vendor arrangements (e.g., pharmacy benefit management), technology partners and other suppliers of services, and to integrate BCNEPA's management team and functions with the larger Highmark organization. In addition, Highmark believes

that the merger will enable BCNEPA to avoid between \$85 and \$110 million in one-time capital investments in capabilities. In total, Highmark believes that, at steady-state, the merger will produce significant administrative efficiencies over five years, and additional care cost savings over five years for subscribers with prescription drug benefits.

The transition and migration of BCNEPA employees and business to Highmark's corresponding assets is expected to occur incrementally over the first 24 months following closing of the merger. Functions will be transitioned at different times depending on business need, degree of systems conversions required, pre-existing contracts and other factors, and will be performed in a manner designed to achieve maximum synergies while managing risks and disruption to the market. The migration activities will be managed by personnel from both BCNEPA and Highmark and from across various operating locations of the combined company based on subject matter knowledge, skills, availability and business need.

With respect to the impacts on employment in the northeastern Pennsylvania region, Highmark anticipates that a certain number of reductions that will occur will be the result of retirements and normal attrition across all of the combined company's operating locations, which will result in position vacancies that will not be filled. Highmark does anticipate limited reductions within the ranks of the

BCNEPA management team and staff as these functions are integrated with counterpart Highmark management structures and functions.

Highmark believes that the transition and wind-down of BCNEPA's systems and business processes will produce administrative efficiencies and synergies over a three to four year period based on Highmark's established high-levels of automation, streamlined workflow and electronic and mobile data channels, and market adoption of new products and capabilities administered on the Highmark administrative platform. Certain resources related to these functions could be redeployed to support other Highmark business, assuming subscriber growth in the BCNEPA market, contiguous counties or Highmark's ancillary dental, business and stop loss businesses.

Highmark believes that other care cost efficiencies can be achieved as Highmark consolidates BCNEPA's provider networks into Highmark's networks and introduces its innovative provider reimbursement and incentive programs, including its provider-driven accountable care organization ("ACO") and patient centered medical home ("PCMH") programs, and its Blue Distinction Total Care Program to the BCNEPA Service Area. These programs will provide enhanced population health management programs for controlled and BlueCard subscribers and consistent provider incentive programs in the northeastern Pennsylvania region.

c. Highmark Subscribers in Northeastern Pennsylvania

In addition to providing economies of scale and important financial and portfolio diversification and assistance in addressing the health insurance needs of several hundred thousand BCNEPA and BlueCard subscribers administered by BCNEPA, Highmark's existing relationship with BCNEPA also supports Highmark's subscriber interests within the BCNEPA Service Area and in the contiguous counties bordering that region.

Through BlueCard, Highmark provides insurance products and services to thousands of Highmark subscribers in the BCNEPA Service Area, who are subscribers through employers located outside the BCNEPA Service Area, and Highmark subscribers in counties contiguous to the BCNEPA Service Area. In total, these subscribers account for hundreds of millions of dollars in annual care costs and payments to providers across the two companies' service areas. These Highmark customers and subscribers require access to seamless, high-quality and affordable health care from hospitals, physicians and other care providers in the communities where they live and work, regardless of where their providers are located. Many of these Highmark subscribers from the contiguous geographic area receive care from providers located inside the BCNEPA Service Area on an annual basis under BCNEPA's provider contracts with hospitals and Highmark's Premier Blue Shield professional network for physician services.

The Premier Blue Shield professional network currently has more than 3,950 physicians and other providers who are located in the BCNEPA Service Area. Highmark's Premier Blue Shield professional network is the only statewide Blue professional network in Pennsylvania, serving subscribers from nearly all Blue Cross Blue Shield plans from across the country and generates substantial access fees paid to Highmark to offset Highmark's costs to contract and administer the network. The close proximity of the BCNEPA Service Area to Blue Plans in other parts of Pennsylvania, as well as in New Jersey and New York, creates a significant dependency on Highmark's ability to offer BlueCard access to a professional network in the BCNEPA Service Area and elsewhere to serve these other plans.

d. Larger Employer and National Business

The BCNEPA Service Area is important to Highmark's interest in providing comprehensive products to large employers operating within Pennsylvania and nationally. Nearly half of Highmark's largest employer group customers with operations in Pennsylvania have employees who reside in the BCNEPA Service Area. In these highly-competitive areas where Highmark competes with larger commercial carriers, efficient and seamless administration, choice of provider networks and availability of innovative products and services are what differentiate health carriers.

e. Protecting Highmark Employment

A merger between BCNEPA and Highmark will help preserve employment positions currently at Highmark. The relationship between the plans currently justifies employment positions in technology, management, business analysis, claims processing, customer service, and sales. If BCNEPA were to pursue a relationship with an organization other than Highmark, Highmark's existing relationships with BCNEPA would be at risk, as would a variety of Highmark employment positions that support those relationships.

2. **Enhance the availability and access to cost effective, high-quality and understandable health insurance products by consumers in the BCNEPA Service Area and in contiguous counties**

FPLIC and FPH represent the majority of BCNEPA's Blue-branded revenue. For products offered by these companies, BCNEPA currently contracts directly with providers located in the BCNEPA Service Area and utilizes these contracts for FPLIC and FPH subscribers residing within the BCNEPA Service Area. For FPLIC and FPH subscribers residing outside the BCNEPA service Area, BCNEPA uses Highmark's various provider networks in Pennsylvania and BlueCard in all other markets. For BCNEPA's remaining Blue-branded products, BCNEPA utilizes Highmark's Premier Blue Shield network as its professional network to serve subscribers both within the BCNEPA Service Area and in other regions of Pennsylvania.

Within the BCNEPA Service Area, Highmark directly contracts with professional providers for the Premier Blue Shield professional network and for the Freedom Blue (Medicare Advantage) business that Highmark administers in the BCNEPA Service Area under a contract with BCNEPA. Within the BCNEPA Service Area, Highmark accesses BCNEPA's facility networks for hospital and other ancillary providers for the Freedom Blue business and Highmark's BlueCard members who reside in or use provider services within the BCNEPA Service Area.

The existence of separate provider networks within the region creates a level of confusion for consumers and providers as well as adding administrative costs for Highmark to maintain the separate networks and related separate benefit structures. In addition to creating confusion for BCNEPA members, existence of the separate networks affects BlueCard subscribers within the BCNEPA Service Area and subscribers to the products of other Blue Plans in bordering service areas in New York and New Jersey and in the contiguous counties that are part of Highmark's central and western Pennsylvania service areas.³

The presence of Highmark subscribers in the BCNEPA Service Area and BCNEPA subscribers in the Highmark service area(s) is the result of the location of policyholders (e.g., employers, unions) who purchase the coverage policies and not the result of competition between Highmark and BCNEPA. These subscribers, like all Blue subscribers, are able to access and utilize hospitals, physicians, laboratories, and other providers under contracts with the local Blue Plan in any controlled (home) or BlueCard (host) service area across the United States. However, in

³ The eleven counties contiguous to the BCNEPA Service Area are: Northampton, Lehigh, Schuylkill, Columbia, Montour, Northumberland, Union, Centre, Clearfield, Cameron, and Potter Counties.

the case of a state like Pennsylvania with its multiple Blue Plans, the population of commercial Blue-branded subscribers that are split and fragmented across the BCNEPA Service Area, Highmark's contiguous counties, and other Pennsylvania markets can result in significant disadvantages to Highmark.

To administer its business in northeastern Pennsylvania and across the state, Highmark contracts with physicians to serve the products and benefit designs that it offers to its subscribers and for the benefit of BlueCard subscribers from other plans that use physician services. BCNEPA contracts with hospitals within the BCNEPA Service Area for its own subscribers and for BlueCard subscribers who use hospital services within the BCNEPA Service Area. This means that a subscriber could have services performed at a hospital in the BCNEPA Service Area where the hospital services are contracted through BCNEPA, while the related physician services are contracted through Highmark. With different product designs and programs as between Highmark and BCNEPA also in the mix, the result can be confusing product offerings and distribution channels, inefficient administration of benefits and services, and fragmented provider-based pay-for-value programs.

a. Seamless Products and Benefit Designs

Highmark believes that introducing seamless products and benefit designs and provider pay-for-value programs that better address the market dynamics across the BCNEPA Service Area and the contiguous counties is one of the benefits of the proposed merger of BCNEPA with Highmark. In addition to merging BCNEPA's provider strategy and provider contracting

functions with Highmark's to drive consistency as described above, Highmark intends, following closing of the merger, to introduce its innovative group and retail products and benefit designs and provider pay-for-value programs, which integrate with its disease management and wellness programs, including its provider-driven ACO and PCMH programs, which BCNEPA does not currently have except in a pilot form, to the northeastern Pennsylvania region. Highmark has substantial experience implementing these products and service delivery models in its other Pennsylvania service areas and local regions as well as in the Delaware and West Virginia service areas. Highmark intends to leverage its investments in these subscriber-centric benefit designs and clinical programs within and across the BCNEPA Service Area and contiguous counties, and to shift the consumer and provider experience toward value-based care and products. Highmark believes that these programs will enable it to work more closely with subscribers and the physicians and hospitals in northeastern and north central Pennsylvania. Highmark also believes that its experience and capability investments will open a collaborative working relationship with providers in the region, reducing member confusion while improving member health status.

Highmark's proposed merger with BCNEPA not only will enable better alignment of products and services that are currently confusing to local employers, producers, providers, and subscribers, but also will allow subscribers to gain access to more comprehensive and integrated capabilities products and services that are not available from BCNEPA today. Highmark believes that these integrated products and benefit programs will more effectively compete with similar capabilities from large national competitors and integrated offerings from other competitors.

b. Innovative and Seamless Pay for Value Programs

The goals of Highmark's pay-for-value programs are to improve consumer experience and outcomes, improve the overall health of the population and reduce or moderate per capita costs of health care. Highmark believes that the merger of BCNEPA with Highmark will further enable the combined company to achieve these goals through deployment of Highmark's transferable and scalable information management technologies, innovative and integrated benefit designs, improved patient-centered care delivery programs and innovative provider incentive models. Highmark believes that these capabilities will promote and drive comprehensive, coordinated and efficient access to quality health care and prevention programs for the combined BCNEPA and Highmark subscribers living and working across the region.

Over the past two years, Highmark has moved to a new form of reimbursement called value-based reimbursement. Under value-based reimbursement models, providers are paid to provide high-quality care while managing overall population or per member per month ("PMPM") costs. Currently, Highmark has two signature programs, Quality Blue Patient Centered Medical Home and Quality Blue Accountable Care Alliance. These programs provide primary care physicians with information tools, care management tools, and compensation incentives to achieve higher quality of care standards, while achieving lower PMPM cost targets. The Accountable Care Alliance also includes an incentive for the coordination of care within a given provider system to improve the patient experience.

Highmark recently has introduced two new value-based programs including a gain share model in both its commercial and Medicare Advantage products with attribution to a health care system (physicians, hospitals and ancillary providers within a given system) and a bundled payment program for key specialists. Highmark believes that these programs will expand Highmark's value-based reimbursement portfolio which will ultimately serve to align incentives with providers and improve care for members.

Finally, Highmark has invested several million dollars in capabilities for its Blue Distinction Total Care program, which integrates local value-based care programs from Blue plans across the country into a comprehensive solution for national account customers with BlueCard subscribers residing in multiple regions of the country. The BCNEPA Service Area is home to a significant number of such BlueCard subscribers. Blue Distinction Total Care links BlueCard subscribers with these local provider-based programs through a platform of shared technology to provide seamless access to providers who deliver patient-centered, value-based care. BCNEPA has not invested in this program for its market. As a result of the merger, Highmark will be able to introduce the Blue Distinction Total Care program to the BCNEPA Service Area. Highmark believes that introduction of the Blue Distinction Total Care program to the BCNEPA Service Area will be beneficial to BlueCard subscribers residing in the BCNEPA Service Area, as well as local providers, as the region's BlueCard subscribers begin to participate in Highmark's unique clinical and provider incentive programs that have historically been limited to controlled subscribers in most markets nationwide.

The key to successfully managing all the above programs is the ability to collect and transfer both transaction (*e.g.*, claims) and clinical information in order to better manage a population of patients. Another key to the success of these programs is a more integrated approach to care management between the health plan and the provider. In both cases, information technology capability is essential. The ability of providers to share data to identify the sickest or most chronically ill patients, and to identify key care needs of those patients, are paramount in succeeding in a value-based environment.

Given the significant investment required in information management and care management systems and processes, Highmark believes that considerable value can be derived by the integration of these programs with BCNEPA programs. Highmark expects to make significant investment in 2014 on these programs without a BCNEPA merger. Further scaling of the programs will benefit both Highmark and BCNEPA. Without a significant investment, BCNEPA will not be able to implement these types of programs for the population served in the BCNEPA Service Area, meaning that a merger with Highmark and the resulting introduction of these programs to the BCNEPA Service Area should pay immediate dividends in the form of managing costs and improving health care quality. Early returns from Highmark programs in other service areas have yielded a three percent decrease in health cost trends, a significant benefit to subscribers and plan sponsors.

3. Drive scale and efficiency for Highmark to spread the fixed costs of its plan operations and the significant capital investments required to compete in the current and new ACA environment.

For almost 10 years, a critical component of Highmark's business strategy to remain competitive with large national insurers has been to gain efficiencies through scale by offering a range of shared services and system licensing through contractual arrangements with other Blue Plans. Highmark also has pursued opportunities to merge or affiliate with other Blue Plans, including those in Delaware and West Virginia. In addition to providing other strategic value, these various forms of arrangements and transactions with other Blue Plans provide economies of scale that help Highmark remain competitive. Supplemental to producing administrative efficiency, these arrangements have helped to offset and spread multi-million dollar annual investments in product and service innovation that have been required to enable Highmark to compete effectively in the new ACA environment and to remain compliant with state, federal and BCBSA mandates.

Highmark offers a variety of commercial and Medicare Advantage health insurance products and services to more than 4.5 million subscribers within its core service areas in Pennsylvania, through its affiliates in Delaware and West Virginia and in its national account business. As a major part of its growth and diversification strategy, Highmark also has entered into arrangements whereby it provides specialized back office and private-label processing and technology solutions for other Blue Plans and will further offset Highmark's IT and operational fixed administrative costs. The net result of this additional scale will be to produce cost savings, which can be spread across Highmark's more than 4.5 million subscriber book of business.

a. Economies of Scale Generated for Highmark by the Merger with BCNEPA

Although BCNEPA currently uses a number of Highmark systems, with the merger of BCNEPA into Highmark, Highmark expects to realize additional scale improvement to its administrative efficiency as a result of the addition of BCNEPA's full subscriber base to the Highmark platform. The addition of several hundred thousand full-service BCNEPA subscribers to Highmark's full service administrative platform is expected to produce significant savings over the first five years after the BCNEPA business is migrated to Highmark's operations and platform, representing a significant increase over the current annualized impact of the existing BCNEPA arrangements.

Highmark's intention with the proposed merger is to leverage the full breadth and depth of Highmark's core administration platform, business processes, business contracts and experiences to improve administrative efficiency and to enhance the customer experience in the northeastern Pennsylvania region. Highmark intends to achieve these objectives by migrating BCNEPA's business and employees to Highmark's administrative systems and business processes starting immediately following closing of the merger. Highmark expects that, in addition to providing customers in the BCNEPA Service Area with next-generation products and services not currently offered by BCNEPA, BCNEPA's migration to Highmark's systems and business processes will result in improvements to operational and administrative efficiency which will benefit the current BCNEPA business.

b. Increasing Administrative Efficiency for BCNEPA

A review of currently available information indicates that Highmark's administrative cost structure and business processes are more efficient than those offered by BCNEPA today. In addition, by merging the plans, Highmark expects to be able to avoid significant anticipated capital expenditures over the next five years. Highmark believes that its administrative systems and business processes will help the legacy BCNEPA business achieve a lower administrative cost structure, thereby allowing it to compete more effectively while at the same time meeting state, federal and BCBSA mandates in a more cost-effective manner.

The transition and migration of BCNEPA employees and business to Highmark's corresponding assets and systems is expected to occur incrementally over a period of 24 months following closing of the merger. Functions will be transitioned at varying times depending on business need, degree of systems conversions required, pre-existing contracts and other factors, and will be performed in a manner that achieves synergies and manages risks while minimizing disruption to the market. The migration activities will be performed by personnel from BCNEPA and Highmark and from across various Highmark operating locations based on subject matter knowledge, skills, availability and business need.

Highmark believes that the merger with BCNEPA and migration of BCNEPA systems and business processes to Highmark's systems will produce significant scale-based economies and administrative efficiencies at steady-state over five years. Savings opportunities include cost reductions in information technology, claims management, clinical services and medical management, corporate systems such as human resources and payroll, financial reporting and informatics. Additional synergies will be generated as BCNEPA's systems are retired following the migration and through the consolidation of certain back office and corporate management and administration functions.

c. Increasing Operational Capacity and Bandwidth for Highmark

Highmark expects that, following a transition period, the use of its systems and processes to administer the former BCNEPA business will produce administrative efficiencies and synergies as a result of Highmark's high levels of automation, streamlined workflow and electronic and mobile data channels. Highmark further believes that these synergies will provide it with an opportunity to absorb additional growth in its subscriber base, as well as additional surrogate subscribers from other plans that use Highmark's systems under contractual arrangements. Providing shared services and systems to other plans is an important component of Highmark's business strategy; the availability of experienced and efficient staffing capacity is a critical selling point for these

arrangements. Highmark expects that the BCNEPA-based work force will absorb some of this incremental workload over time.

Highmark believes that the adoption of Highmark processes and systems to support business in the BCNEPA Service Area also will ensure operational and service consistency and flexibility across Highmark's operations that support its other Pennsylvania-based and national business. Standardization and staffing flexibility across Highmark's operating regions will allow the spreading of administrative costs and provide management with the ability to easily flex-up or flex-down experienced resources to support the staffing needs for new employer customers or shared service health plans, environmental closures at a remote location, seasonal workload balancing and other new business opportunities that require experienced staff and short ramp-up timeframes. This type of operational flexibility and workload balancing across campuses currently is managed by Highmark's Operations Command Center in a highly automated and seamless manner and will manage workflow between the northeastern Pennsylvania-based work force and operations in other Highmark operating locations.

Highmark believes that the resource capacity created through the merger of BCNEPA and Highmark will provide opportunities for cross-training and the leveraging of knowledgeable employees to support Highmark's nationally-recognized and growing vision, dental and stop loss subsidiary companies, as well its affiliated Allegheny Health Network providers in certain business, operations,

technical and management roles. In addition to benefiting the employees and the enterprise by streamlining employee recruiting, Highmark projects that this cross-placement of talent will produce a better, more seamless administration for Highmark's customers who purchase or use multiple products or services.

d. Additional Opportunities for Cost Reduction

The BCNEPA-Highmark merger also will produce opportunities for medical cost savings for the combined book of business of BCNEPA and Highmark. As an example, Highmark believes that as BCNEPA's business is migrated to Highmark's pharmacy business processes and PBM contract, the merger should produce moderate pharmacy cost savings at steady-state over five years after the BCNEPA business is migrated to Highmark's PBM contract and operations. These savings will be a function of increased scale, which should enable Highmark to secure higher rebates and pharmacy discounts, and lower PBM administration and dispensing fees.

In addition to pharmacy savings, Highmark expects to generate efficiencies through the consolidation of the three professional networks that BCNEPA currently maintains in the BCNEPA Service Area for the FPLIC, FPH and Freedom Blue products and the integration of these networks with Highmark's provider networks. Highmark believes that integration of these professional networks will at least maintain and likely will enhance seamless consumer access

to physicians and other professional providers in the region, as well as in the contiguous service areas, and will produce further administrative and medical cost synergies with the adoption of Highmark's pay-for-performance and other incentive based programs and reimbursement methodologies.

Highmark believes that another benefit of the merger will be the combined company's ability, following the merger, to provide a seamless network of providers and population-based health and wellness programs that are currently fragmented north and south along the I-80 corridor. With the consolidation of provider networks and the introduction of new reimbursement methods and incentive programs that span the geographic region, the currently fragmented administrative delivery of programs by Highmark and BCNEPA will be combined, which should result in more efficient and consistent programs, improved consumer experience and enhanced provider satisfaction.

4. **Increase Highmark's access to talented, cost-efficient work force and employment market.**

An important benefit to Highmark of the proposed merger with BCNEPA is the opportunity to augment the multi-disciplinary talent pool that Highmark requires across its health plan business and its subsidiary dental, vision and stop loss businesses.

Highmark expects that, following the merger, most BCNEPA management and staff will remain in their same or similar roles in order to ensure a smooth and non-disruptive integration of

functions and operations. BCNEPA's work force not only shares a similar operating culture with Highmark, but many employees have direct experience using Highmark systems in the performance of their current work activities. The experience of these employees should ease their transition to the Highmark organization and reduce Highmark's training and transition costs.

Over time, Highmark believes that the merger will afford it with an opportunity to integrate talented staff from BCNEPA into other important business and technology functions supporting Highmark's broader health plan business and/or to assume roles within Highmark's subsidiary companies. Highmark thus believes that the merger will create opportunities for Highmark to enhance its talent base and skill set while providing enhanced career opportunities for transitioned employees. As employees in a larger and more diversified company, the transitioned BCNEPA employees should be exposed to a broader set of technologies, skill disciplines, market segments and business units than they would have in a smaller plan. Highmark's experience with the integration of employees and functions following affiliations with Blue plans in Delaware and West Virginia support its expectations in this regard.

Employees from both those plans have assumed key roles in the larger Highmark organization at the senior and middle management levels and professional positions across the broader business footprint and functional disciplines. It also would be consistent with Highmark's experience in the BCNEPA Service Area. Over time, and consistent with Highmark's experience with the Delaware and West Virginia affiliations, Highmark expects similar opportunities for other post-merger employees from BCNEPA's business, clinical, financial, IT and other functional

disciplines to expand their involvement in Highmark's larger business footprint and diversified businesses. The ability to gain such multi-disciplinary and experienced talent is a key objective and added value of the merger with BCNEPA.

E. Conclusion

For all the foregoing reasons, Highmark believes that the merger of BCNEPA into Highmark will yield substantial benefits to Highmark, its policyholders/subscribers, current BCNEPA employees and the general public in the BCNEPA Service Area and surrounding regions.