

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

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

**Hospital Service Association of Northeastern Pennsylvania
d/b/a Blue Cross of Northeastern Pennsylvania;
First Priority Life Insurance Company, Inc.;;
HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health**

By Highmark Inc.

**BCNEPA SUPPLEMENTAL RESPONSE TO INFORMATION REQUEST
5.2.9.3 FROM
THE PENNSYLVANIA INSURANCE DEPARTMENT**

REQUEST 5.2.9.3:

Provide: (A) a description of (including the rationale for, and identification of all Documents directly or indirectly used to prepare any Highmark Entity's or BCNEPA Entity's response to this section) all plans for changes in any Highmark Entity's or BCNEPA Entity's operations, structure, policies, strategies, corporate goals, financing, business, officers, employees or any other area of corporate activity as a result of the Transaction including, without limitation any changes in business or marketing strategy in the current market served by any BCNEPA Entity, including, without limitation, any changes that have been implemented in contemplation of the Transaction being consummated; (B) a description of, and all Documents relating to, each efficiency (including cost savings, new product introductions, and service or product improvements) that the applicable Highmark Entity or BCNEPA Entity anticipates will result from the Transaction, including in the description: (i) the steps that the applicable Highmark Entity or BCNEPA Entity anticipates taking to achieve the efficiency, the risks involved in achieving the efficiency, and the time and costs required to achieve it; (ii) a quantification of the efficiency and an explanation of how the quantification was calculated; (iii) an explanation of how the Transaction would allow the applicable Highmark Entity or BCNEPA Entity to achieve the efficiency; (iv) each alternative to the Transaction by which the applicable Highmark Entity or BCNEPA Entity could achieve the efficiency and each reason why the applicable Highmark Entity or BCNEPA Entity could not achieve the efficiency without the Transaction; and (v) the identity of each Person (including the Person's title and business address) employed or retained by any Highmark Entity or BCNEPA Entity with any responsibility for achieving, analyzing, or quantifying the efficiency described. For efficiencies that involve cost savings, state separately the one-time fixed cost savings, recurring fixed cost savings, and variable cost savings (in dollars per

unit and dollars per year); (C) description of all statements or actions by any Person (identifying the Person by name, title, and business address) in support of, in opposition to, or otherwise expressing opinions about the Transaction or its effects; (D) a description of any other terms or conditions of the Transaction that are not reflected in the Merger Agreement or other Documents supplied with the Form A; and (E) a full and complete summary of all steps implemented or planned or to be implemented to integrate the BCNEPA Entities with the Highmark Entities in connection with the Transaction, including, without limitation, the costs to be incurred or savings realized in connection therewith.

SUPPLEMENTAL RESPONSE:

BCNEPA certifies to the best of its information, knowledge and belief the following:

(A)

No supplemental information.

(B)

No supplemental information.

(C)

BCNEPA is not aware of any public statements or actions by any Person in support of, in opposition to, or otherwise expressing opinions about the Transaction or its effects except for one opinion, a copy of which is attached hereto, which was published in the Opinion/Editorial section in four Pennsylvania regional newspapers. Also responsive to this Request are the statements that have been previously delivered to the Department and which are set forth on the Department's website.

(D)

No supplemental information.

(E)

The attachments provided in BCNEPA's initial confidential response to Request 5.2.9.1 and supplemental confidential response to Request 5.2.9.1 are responsive to this Request.

**Hospital Service Association of
Northeastern Pennsylvania
d/b/a Blue Cross of Northeastern
Pennsylvania ("BCNEPA")
19 North Main Street
Wilkes-Barre, PA 18711**

Divider Page

Ensuring fairness in merger

The impending merger of Blue Cross of Northeastern Pennsylvania and Highmark, the huge Blue Cross insurer based in Pittsburgh, probably is inevitable.

Based in Wilkes-Barre, Blue Cross of Northeastern Pennsylvania has had a close working relationship with Highmark for years. Highmark invested \$34 million in two for-profit Blue Cross NEPA subsidiaries in 2005 and it also is the local insurer's contracted claims processor. The two companies jointly offer Medicare Advantage products. And just three months ago, Highmark announced that it would seek a "stronger affiliation" with Blue Cross of Northeastern Pennsylvania, making the merger announcement a logical progression.

Regulatory approval by the state Insurance Commission is required for the merger. But this proposal doesn't create problems that have led to rejected merger proposals in the past.

Highmark is the state's largest health insurer and the seventh largest in the nation. In 2009 it and Independence Blue Cross of Philadelphia, the state's second-largest health insurer, ended their merger plan after state Insurance Commissioner Joel Ario threatened to reject it. The combined companies would have captured 51 percent of the state health insurance market and about \$17 billion in annual premium revenue.

Blue Cross of Northeastern Pennsylvania is the smallest of the state's four Blue Cross companies. Its proposed combination with Highmark does not threaten the same level of market dominance

as the IBC proposal, even though it would enable the combined company to sell insurance in 62 of the state's 67 counties.

There are 37 Blues nationwide, and Pennsylvania is the only state with more than two. The merger still would leave it with three — Highmark, Independence Blue Cross and Capital Blue Cross of Harrisburg. A completed merger might force Capital Blue Cross and Independence Blue Cross into a merger of their own, but even then the state would have more Blues competition than most other states. Highmark, for example, is the lone Blue Cross provider in West Virginia and Delaware.

Highmark had 4.3 million subscribers, \$15.2 billion in premium revenue and \$4.1 billion in reserves at the end of 2012. Blue Cross NEPA had 550,000 subscribers, \$750 million in revenue and \$304 million in reserves.

Several industry experts have said that the merger could make available more insurance products at better prices, which would be good for consumers and the economy.

But the merger will carry a price for the region. Both companies cited greater efficiency as a driving force for the merger. Over the long-term, that likely will mean shifting more work into Highmark's workforce of 20,000, at the expense of jobs in Blue Cross of Northeastern Pennsylvania's workforce of 750.

The merger plan requires the new entity to maintain a "significant workforce in Northeastern and North Central Pennsylvania" and to "make efforts to maintain local staffing levels." The company will not create administrative and clerical redundancy, however.

The plan also calls for \$100 million to be donated to an unspecified foundation for health and economic development in BC NEPA's region. The company-affiliated Blue Ribbon Foundation now handles that function. Under the proposal, \$90 million would come from NEPA and \$10 million would come from the newly combined company.

The Insurance Department announced that it would conduct a public hearing on the merger in Northeastern Pennsylvania. That should draw out the specifics regarding universal acceptance of Highmark insurance by

local providers and the impact on premiums, health care providers and employment.

Consolidation of insurers and providers might well be the inevitable direction of the health care marketplace, but that doesn't relieve regulators of their obligation to make it work in the greatest possible public interest.