

May 1 comments to the Pennsylvania Insurance Department at the public informational hearing regarding Highmark Health's request for modification of the Department's Approving Determination and Order dated April 29, 2013, (Order No. ID-RC-13-06) under Condition 27 of the 2013 Order, as modified.

**Pennsylvania Insurance Department
Public Informational Hearing**

**Highmark Request for Modification of the Commissioner's
Approving Determination and Order (Order No. ID-RC-13-06)
Dated April 29, 2013, as Modified July 28, 2017**

**Comments of David L. Holmberg, President and CEO, Highmark
Health and Chairman of the Board, Highmark Inc.
On Behalf of Highmark**

For delivery on May 1, 2024

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Good morning. I'm David Holmberg, president and CEO of Highmark Health.

I appreciate the opportunity to speak with the Department this morning in support of Highmark Health's Request for Modification. I would like to focus on three things: (1) the 2013 transaction that created Highmark Health; (2) Highmark Health's business model and financial strength as a blended health organization; and (3) the current state of competition that Highmark Inc. faces. My aim is to show the Department that, starting from the uncertainty surrounding the transaction in 2013, Highmark Health has navigated the marketplace to a position of strength as an integrated system that is incentivized to deliver high quality care at a reasonable cost. I ask that Highmark Health and Highmark Inc. be restored to an equal playing field with other integrated systems so we can deliver on our mission for the benefit of our members and the Commonwealth.

Over the last ten years, Highmark has transformed from a successful regional insurer into an innovative, diversified health care organization with comprehensive solutions and national impact. Our Living Health model in western Pennsylvania is proving that we can integrate health, coverage and care with positive impact for our members and the community. As a blended health organization, Highmark Health operates a health system – Allegheny Health Network – through the lens of a large health insurer, with a focus on reducing current and long-term costs of care by enhancing health outcomes and quality at every step of the patient experience. In every part of our business, the most important proof point is that people are choosing our products and services because we deliver what they value.

In my role, I focus on Highmark Health's future and on executing the blended health care model that has served our members and communities so well. For our discussion today, I would also like to look back at why and how Highmark started on this path.

More than 10 years ago, Highmark Inc. entered the transaction with West Penn Allegheny Health System that formed Highmark Health and eventually Allegheny Health Network. The transaction came about at a time of uncertainty for West Penn and our community. In the years leading up to the transaction, West Penn suffered deepening annual operating losses and relied on cash advances and other financial support from Highmark to stay afloat. Despite Highmark's support, West Penn continued to face grave operational and financial difficulties. West Penn employed more than 10,000 people, operated five hospitals, and had hundreds of millions of dollars in unfunded retirement obligations. All of that was at risk.

To meet community needs with high-quality and affordable health care, save vital health care jobs and institutions – as well as the economies of their local communities –

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and sustain health care competition, Highmark agreed to affiliate with West Penn. Highmark ultimately launched Allegheny Health Network and formed Highmark Health as an enterprise that strategically aligns our health insurance, provider, and diversified businesses.

As the Department well knows, the Approving Determination and Order was entered on April 29, 2013 and the transaction was permitted to close. Highmark respects and appreciates the Department's handling of the Order and the process that led to its implementation. The Order, of course, contained Conditions, designed at a time of uncertainty as to whether Highmark would ultimately be able to achieve its strategy of creating a thriving integrated payor and provider system.

The Conditions were primarily intended to ensure that (1) Highmark remained financially stable so that insurance assets in the Commonwealth would be protected against the concern of wasting those assets on a failing provider system unable to be rehabilitated and (2) competition would be preserved. The current state of Highmark Health's finances and of competition would have been difficult to foresee amidst the uncertainty of 2013, but now it is clear that much has changed. Highmark Health continues to be a financially stable participant in highly competitive markets. In this new landscape, Highmark should be relieved of the outdated Conditions and permitted to abide by its independent legal obligations, including to the Department. I'll now discuss the current state of Highmark's finances and the competition it faces.

Today, Highmark Health is a financially strong integrated system. During the last decade:

- Highmark Health's annual revenue grew 72 percent, from \$15.8 billion to \$27.1 billion.
- AHN's annual revenue more than doubled, from \$2.2 billion to \$4.7 billion. AHN has also produced approximately \$1.4 billion in accumulated EBITDA that was used for its operations.
- And Highmark's health plan membership rose 32 percent, from 5.3 million to about 7 million.

The financial rating agencies' comments about Highmark Inc. affirm our strong financial position:

- AM Best stated that Highmark's excellent ratings "reflect its balance sheet strength, which [the ratings agency] assesses as strongest, as well as its adequate operating performance, favorable business profile and appropriate enterprise risk management (ERM)."

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- According to S&P Global Ratings, the stable outlook reflects the agency's expectation that Highmark will maintain its leading commercial market positions and profitability in line with similarly rated peers and sustain excellent capital and earnings, and "Highmark's key rating strengths include its BCBS brand equity, its leading commercial market position and geographic diversification in four states, and diversified product portfolio across commercial and government product segments."
- In reaffirming Highmark's stable outlook, Moody's praised the organization's "success in integrating its affiliated and non-affiliated hospital networks within its expanding health insurance footprint" and shared an expectation that enhancements currently being made by Highmark to its integrated model, alongside technological advancements to drive cost efficiencies and quality improvements, "should lead to continued enrollment gains and drive non-insurance earnings diversification."

Highmark's financial strength underlies another aspect of our story that I want to emphasize: Highmark's commitment to serving the public interest by strengthening local communities. This commitment goes beyond providing affordable, high-quality care. In 2023, for example, Highmark Health provided \$225 million of corporate giving, including uncompensated care at AHN, and funded another \$826 million of capital investments. Highmark's financial strength allows us to keep this commitment to the community.

Highmark Health's track record of success and stability since 2013 shows that the uncertainty that gave rise to the Conditions has been replaced by a strong foundation and sustainable business model. The Department's concern that Highmark Inc. might be putting valuable insurance assets at risk in its acquisition of West Penn has been answered by Highmark Health's current financial strength. The preservation and strengthening of AHN as a provider in the western Pennsylvania market is a critical factor in Highmark Health's overall financial strength. Highmark Inc. in particular remains on solid financial footing in the eyes of the Department. Our risk based capital is more than sufficient under the Department's standards.

Strong financials, long-term stability, and a relentless focus on the millions of people we serve have been essential to the transformation and growth we've achieved in the past decade. They will continue to shape our transformation and growth in the decade ahead as we continue investing in innovative programs and technology, in digital and brick-and-mortar infrastructure, and in our communities.

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In addition, Highmark Health currently operates in highly competitive markets. There has been a clear increase in competition on the insurance and provider sides since the Order was introduced in 2013, as Highmark has shown in its submissions. New and existing insurance competitors have introduced new products in an ever-changing competitive environment. Highmark has responded with innovative products that fit its integrated business model. Our Together Blue health plan is a leading example. High satisfaction ratings have made it the most popular Affordable Care Act product in western Pennsylvania. The number of people choosing the plan doubled between 2021 and 2023.

In this intense competitive environment, customers and consumers choose Highmark because of access, affordability, and quality. But also because of everything we do to ensure an outstanding consumer experience.

On the provider side of the market, AHN improved access to care and maintained strong quality of care. This is a stark change from West Penn's dim prospects prior to affiliating with Highmark and the very real possibility that western Pennsylvania would be left with a single dominant provider.

With respect to access, AHN has, among other things:

- created six multi-specialty Health + Wellness pavilions and six outpatient centers;
- reopened the West Penn Hospital emergency room and expanded inpatient services; and
- opened seven new cancer centers, including a major new academic and research hub at Allegheny General Hospital. AHN's quality metrics are strong across the board.

These and other expanded services at AHN served a critical community need during the COVID-19 pandemic. AHN provided much needed bed capacity for patients hospitalized with severe COVID-19.

AHN has also been recognized for its exceptional quality of care. To name just a few examples of AHN's success in 2023:

- Two of AHN's facilities received Press Ganey Guardian of Excellence Awards for patient experience. That puts them in the top 5% of more than 40,000 health care facilities.
- Five AHN facilities received Leap Frog's highest "A" grade for patient safety.
- Allegheny General became the fourth AHN hospital to earn the prestigious Magnet designation for superior nursing and patient care.

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- And U.S. News and World Report ranked AHN West Penn Hospital's OB/Gyn care best in our region for a second straight year.

As you can see, a lot has changed since 2013. In this dynamic and competitive environment, our request to the Department is that Highmark be treated like other integrated systems. The Department's Order allowed for the formation of Highmark Health and paved the way for Highmark's activities throughout the last decade, but it was not intended to be immutable or permanent. The Order contains a process for its own modification, and Highmark properly invoked that process to ensure that it is subject to fair and appropriate regulation. Since the Order was entered in 2013, no similarly situated organization has faced such extensive oversight from the Department. The 2013 Order costs us and our stakeholders, solely in paying the Department's consultants, more than \$2 million per year on average, amounting to over \$20 million in the last decade. This does not include our internal costs of compliance, including the costs of our consultants. Other integrated systems do not face such costs.

The extensive Conditions not only impose a unique burden on Highmark, they are also unnecessary. As we explain in our request for modification, many of the Conditions are addressed by other laws, regulations, or are obsolete. Highmark takes its legal obligations seriously and the Department and other regulators have ample authority outside of the Conditions to ensure that Highmark abides by those obligations.

Ultimately what Highmark is looking for, supported by the current state of competition in Pennsylvania, is to be regulated like other integrated systems. Similar conditions imposed by the Department are not applicable to similarly situated integrated systems, with one recent exception. As of March 27th, the Department imposed certain competitive conditions on Geisinger in connection with its affiliation with Kaiser. Those conditions are far more limited than those Highmark endures. Importantly, those conditions were designed and implemented to deal with present facts and circumstances surrounding that transaction. Highmark's Conditions may have been right in 2013, but they are not right today. Several other large integrated systems with which Highmark vigorously competes face no such regulations. The Department should avoid piecemeal regulation of integrated systems that favors some systems over others purely by virtue of when and how they affiliated.

At this point, there can be no doubt that Highmark Inc. continues to be a very strong, fiscally sound health insurance company and that health care competition in western Pennsylvania has been enhanced following the creation of Highmark Health as a blended health organization. Highmark Health has preserved competition for health care services in western Pennsylvania, enhanced the health care jobs market in western

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Pennsylvania, and maintained broad access to hospitals for its members, all while aiming to reduce the cost of care and maintaining its financial strength.

For that core reason, the Conditions have served their purposes. The Conditions made sense when they were implemented in 2013 and Highmark Health's future as a blended health organization was uncertain. But that uncertainty in 2013 has been replaced by a track record of success for Highmark Health and of increased competition for the benefit of Pennsylvanians.

Highmark Health and Highmark Inc. will remain subject to robust oversight from the Department, the antitrust laws, and other regulatory obligations, ensuring that Highmark Inc. remains a viable health insurer in the Commonwealth of Pennsylvania subject to the same regulatory regime as its integrated competitors.

We are very proud of what we have accomplished on behalf of consumers in the last decade, and we firmly believe the remaining Conditions of the Order should be lifted.