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Public Hearing Regarding
Highmark-West Penn Allegheny Health System Affiliation
Pennsylvania Insurance Department
April 17th, 2012 – Pittsburgh

Public Comments of

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26

Good morning. My name is Neal Bisno, President of SEIU Healthcare Pennsylvania. We are the state's largest healthcare union, uniting 25,000 frontline caregivers across the Commonwealth, including over 2,000 registered nurses and healthcare workers employed by West Penn Allegheny Health System (WPAHS). SEIU Healthcare Pennsylvania members at WPAHS include 1,300 RNs at Allegheny General Hospital here in Pittsburgh, 700 RNs and service workers at Allegheny Valley Hospital in Natrona Heights, and 130 service workers at Canonsburg General Hospital in Canonsburg.

Speedy regulatory approval of the Highmark-West Penn Allegheny transaction is absolutely critical not just for the future of the union members at WPAHS, but for all of the nearly 10,000 employees across this system, for the patients and communities we serve, and for the western Pennsylvania economy. This transaction is not just the best but the only way to ensure a strong future for this vital community asset.

I'd like to spend a few moments highlighting the importance of WPAHS to this community, explaining why this transaction is crucial for the system, and laying out the catastrophic consequences of delay or denial of approval of the Highmark –WPAHS affiliation.

WPAHS: Key to Healthcare Choice and Competition in Western Pennsylvania

The caregivers of West Penn Allegheny Health System have a great deal to be proud of. Thanks to their dedicated efforts, WPAHS facilities provide excellent quality of care at a demonstrably lower cost to patients and the community than the competing system, UPMC.

For the third straight year, West Penn Allegheny Health System was named by Thomson Reuters as one the country's top performing healthcare providers, based purely on objective outcomes data. This places WPAHS among the 63

best performing U.S. healthcare systems in the nation. WPAHS is the only hospital system in western Pennsylvania and one of just five in the Commonwealth to qualify for this accolade.¹

WPAHS' Allegheny General Hospital is the only quaternary level Pittsburgh area hospital named by Thomson Reuters as one of the 50 Top Cardiovascular Hospitals for 2011. The hospital was one of just three heart transplant programs in the United States (the other two are located in Ohio and Tennessee) with better than expected patient outcomes, according to the Scientific Registry of Transplant Recipients. AGH's liver transplant program's one year and three year patient outcomes were the best of Pittsburgh's three adult transplant centers.²

Registered nurse members of our union at AGH have worked closely with hospital management to pioneer cutting edge initiatives to promote the highest quality of patient care. The hospital is one of only a handful in the nation to have established safe, minimum RN to patient ratios, developed jointly by management and frontline staff nurses and guaranteed in a collective bargaining agreement. Numerous studies have shown that safe nurse to patient ratios prevent medical errors and save lives, with high RN workloads increasing the risk of patient death by as much as 31 percent.³

Over the past two years, with the support of a grant from the Pennsylvania Department of Labor and Industry, AGH nurses and management have instituted an innovative RN continuing education program focused on enhancing nurses' skills to engage in quality and performance improvement at the patient care unit level.

¹ Briefing paper produced by West Penn Allegheny Health System (WPAHS).

² Briefing paper produced by WPAHS.

³ Linda H. Aiken, PhD, RN et al., *Journal of the American Medical Association*, Vol. 288, No. 16, October 23-30, 2002.

Just as impressive as WPAHS' remarkable quality outcomes is the fact that West Penn Allegheny provides an excellent standard of care at a significantly lower cost than UPMC hospitals. Data from Medicare cost reports and the Pennsylvania Health Care Cost Containment Council from fiscal year 2010, adjusted for acuity, shows that per-case costs at WPAHS hospitals were \$5,879 compared to \$7,253 at UPMC hospitals, a difference of \$1,374 or 19% less.⁴

There is little question that UPMC has used its market dominance to drive up the price of services, and as a result the cost of healthcare for all western Pennsylvanians. Over the last decade and a half, UPMC has through a steady stream of acquisitions built a sprawling network that is remarkable for a city the size of Pittsburgh. Today, facilities owned by UPMC account for 3 out of every 5 acute care hospital discharges in Allegheny County (see figure 1).⁵ A study published last September in *Health Affairs* confirmed a host of previous research showing that greater hospital concentration leads to higher prices.⁶ Not surprisingly, a recent study commissioned by the Pittsburgh Business Group on Health shows that Pittsburgh has higher per-person, per-month healthcare costs than the comparable cities of Cincinnati, St. Louis and Cleveland.⁷

As the second largest health system in the region, and the sole source of meaningful competition to UPMC, WPAHS is literally the only institution standing in the way of UPMC's establishing a virtual monopoly position over hospital services in this city and county. According to Highmark, the current contract dispute between Highmark and UPMC began with UPMC's demand for a 40% increase in reimbursement. One can only imagine how the cost of healthcare would skyrocket if UPMC were to increase its market dominance even further.

⁴ Medicare cost reports and PHC4 data, via WPAHS.

⁵ Pennsylvania Department of Health

⁶ <http://content.healthaffairs.org/content/30/9/1728.abstract>

⁷ <http://www.hci3.org/sites/default/files/files/HCI-2012-IssueBrief-4City.pdf>

WPAHS: A Vital Part of the Western Pennsylvania Economy

In addition to its crucial role in preserving healthcare competition and lowering cost, West Penn Allegheny is an absolutely vital source of jobs and driver of economic activity in western Pennsylvania. WPAHS is the 4th largest private sector employer in Pittsburgh, employing 9,981 residents of the region (see figure 2).⁸ And jobs at WPAHS are not just any jobs, they are exactly the kind of high quality jobs that build and sustain the middle class in this region, including thousands of nurses, technologists, and service workers (over 1 in 5 of them union members).

Hospital jobs at WPAHS provide a career path for employees, from entry level positions like food service and environmental services worker, to clinical classifications such as certified nursing assistant and phlebotomist, to licensed professional positions such as RN and medical technologist. A newly licensed registered nurse at Allegheny General Hospital fresh out of nursing school earns \$49,040 per year with access to family health coverage and a secure retirement, an entry point into the middle class for her and her family.

WPAHS' impact goes far beyond the healthcare workers the system employs directly. We estimate that WPAHS supports 11,000 additional jobs in the community, a powerful ripple effect across the region.

At a time when our community and our nation desperately need more good jobs, it is critical that regulators and policy makers in Harrisburg take every available step to retain existing, high quality jobs for western Pennsylvania.

⁸ *Pittsburgh Business Times Book of Lists 2012*, p. 160.

The Highmark Affiliation Is Crucial to Ensuring WPAHS' Future

Despite its provision of high quality, cost effective care and its significant economic contributions to the region, WPAHS faces substantial financial challenges that threaten its very viability. The system posted a \$34 million loss in the last three months of 2011, the latest in multi-year losses.

The roots of WPAHS' financial challenges include some factors faced by all hospitals in the region, including cuts to Medicaid and Medicare reimbursements, an arbitrarily low Medicare Wage Index payment formula compared to similarly situated communities, and a sustained economic downturn that has caused some patients to delay or forego treatment in recent years.

Yet many of WPAHS' challenges are unique. Let us not forget that the system was born out of the massive bankruptcy of the former AHERF in 1998, a direct result of criminal corruption on the part of the management of that system. Because of this history, WPAHS came into being bearing significant debt.

Throughout its existence WPAHS has faced sustained and aggressive efforts by UPMC to drive the system out of business. UPMC has pressed its financial advantage, steadily encroaching on WPAHS' market share, paying large sums to entice physicians to defect from WPAHS, and building brand new facilities in the vicinity of WPAHS hospitals. The most glaring example of UPMC's approach will be the opening of UPMC East in Monroeville in a few months: an entirely duplicative, unnecessary hospital solely intended to undermine WPAHS' Forbes Regional Hospital located less than a mile away.

No one denies the substantial financial challenges facing WPAHS: neither WPAHS nor Highmark themselves, and certainly not UPMC management, who have been talking of WPAHS' financial difficulties for years. The auditors of WPAHS, KPMG, have indicated that the system's ability to continue as a going

concern is at serious risk without Highmark's assistance. Moody's, meanwhile, has downgraded the system to Caa1,⁹ questioning whether the system would be able to survive without the Highmark acquisition.

The choice facing WPAHS and the community that depends on this system is stark. WPAHS' capacity to survive and thrive depends upon joining with an entity strong enough to allow the system to address its financial challenges and compete effectively with UPMC. There is only one potential partner that has the wherewithal and willingness to join with WPAHS, while maintaining WPAHS hospitals' long history as not for profit institutions focused on providing quality care to this community. That partner is Highmark.

The Consequences of Delay or Denial Would Be Catastrophic

Make no mistake – if approval of the Highmark-WPAHS transaction is delayed or denied, the results for this community would be devastating. At risk, first of all, are the jobs of over 2,000 of our union's members and the nearly 10,000 WPAHS employees who have made the system a bright star of healthcare quality despite the difficulties. To put this in perspective, apart from the pain the loss of these jobs would cause to the affected individuals and their families, such an event would immediately drive the unemployment rate in metropolitan Pittsburgh from 7.6% to 8.5%, the difference between being well below the national average and spiking above it. Indeed, the loss of WPAHS would be the greatest blow to this region's economic and social fabric since the demise of the steel mills in the 1980s.

For those who find it hard to imagine important hospitals closing in this community, tell that to the former employees and patients of St. Francis Hospital, Braddock Hospital, Southside Hospital, and Aliquippa Hospital. Remember that prior to the announcement of the affiliation agreement with Highmark, WPAHS

⁹ <http://old.post-gazette.com/pg/11326/1191850-100.stm>

had made plans to immediately and permanently close West Penn Hospital. To be sure, absent the Highmark partnership, all of the hospitals of WPAHS are at grave risk of failure.

Beyond the catastrophic loss of jobs, disapproval of the Highmark-WPAHS transaction would spell the end of healthcare competition in this community. UPMC's market share in Allegheny County would grow from 60% to 71% or higher. That system's ability to dictate price and drive up cost would be virtually unchecked.

There is no doubt that Highmark's decision to partner with West Penn Allegheny will enhance competition and choice in the Pittsburgh healthcare market. In announcing its approval last week of the Highmark-WPAHS transaction, the United States Department of Justice declared that the affiliation "holds the promise of bringing increased competition to western Pennsylvania's healthcare markets by providing WPAHS with a significant infusion of capital and increases the incentives of market participants to compete vigorously."¹⁰ Not even UPMC disagrees, if we are to believe UPMC CEO Jeffrey Romoff's public statements to the effect that he welcomes competition and that UPMC is not opposed to Highmark's acquisition of WPAHS.

Together, WPAHS and Highmark have the opportunity to create a truly integrated healthcare delivery system that can adapt to the changing world of healthcare, in which payment will be based on performance and quality outcomes, not simply volume. Together, WPAHS and Highmark will maintain and expand hospital competition in western Pennsylvania, deliver high quality care in an efficient and cost effective manner, and preserve and create quality jobs for this community.

¹⁰ Press Statement of Antitrust Division of US Department of Justice, April 10, 2012, posted at <http://online.wsj.com/article/BT-CO-20120410-710401.html>.

We strongly urge the Pennsylvania Insurance Department to approve the proposed Highmark affiliation of West Penn Allegheny Health System as soon as possible. Once the acquisition is approved, our union looks forward to continue working together with the Insurance Department and all the area's health systems and health plans to promote a healthcare system that works for everyone in this community.

Thank you for the opportunity to share our organization's perspective today.

Figure 1:

Allegheny County Hospital Discharges, FY 2011

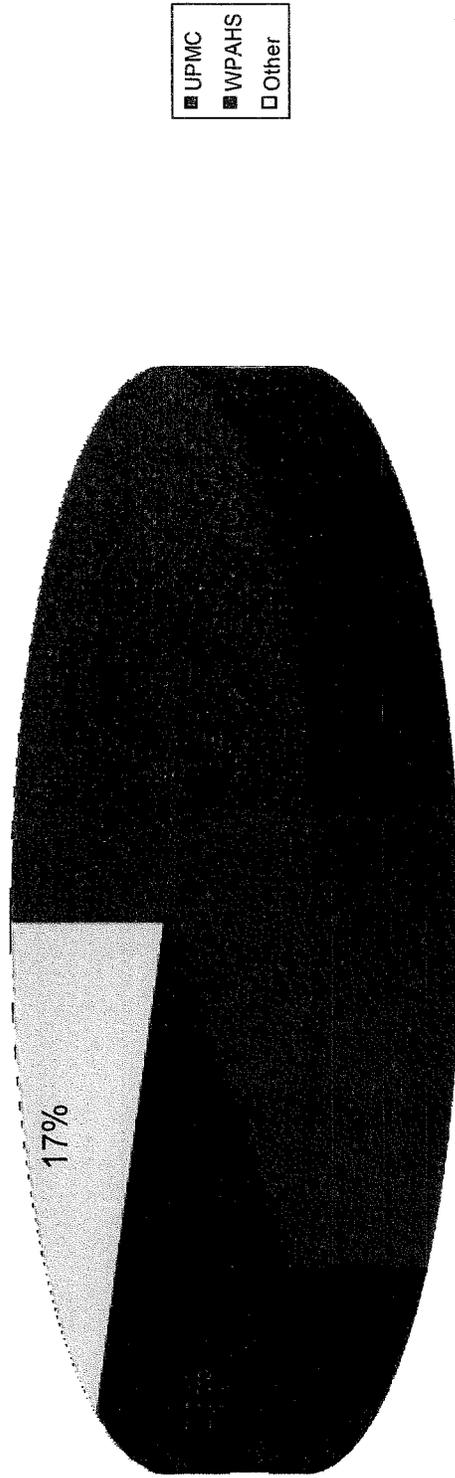


Figure 2:

Pittsburgh Area's Largest Private Employers

Employer	Number of Employees
1. UPMC	38,700
2. University of Pittsburgh	12,215
3. Giant Eagle Inc.	11,087
4. West Penn Allegheny Health System	9,981
5. BNY Mellon	7,550
6. Westinghouse Electric Co.	6,000
7. Highmark Inc.	5,266
8. United States Steel Corp	4,700
9. Carnegie Mellon University	4,602
10. United Parcel Service	4,562



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