

Testimony of
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Chairman, Pennsylvania Senate Committee on Banking and Insurance
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As Chairman of the Senate Banking and Insurance Committee I have spent a significant amount of time on the current Highmark-UPMC contract dispute as well as the proposed acquisition of the West Penn Allegheny Health System by Highmark.

During my 12 years as a state Senator and five-year tenure as Chairman of this committee, I do not believe I've encountered an issue as complex as the web weaved by these so called not-for-profit conglomerates. It has been very difficult for me personally to decide what is the 'right' path to resolving the Highmark-UPMC impasse.

However, I have reached some conclusions in regard to the West Penn acquisition which I hope the Department takes into consideration as it continues with the review process.

Generally, I support Highmark's effort to save the West Penn System. However, I do have some concerns and reservations that I believe should be addressed.

There is no doubt in my mind that the people of Western Pennsylvania need a viable competitor to the UPMC Health System. The West Penn of today, or in the future without Highmark, is simply inadequate to provide the necessary competition to establish and maintain the needed balance in our region's health care service marketplace.

If left unchecked by competition, UPMC in its position of dominance can unilaterally dictate terms of reimbursement to other insurers almost at will. Therefore I ask the Insurance Department to favorably review this proposed acquisition, but with a few points of caution.

1 – Highmark is a not-for-profit entity that has amassed a reserve account of nearly \$5 billion. To be clear, this reserve is not dividends or surplus profit – it is premium dollars paid by employers and individuals who are insured by Highmark. It is clearly apparent that Highmark will need to invest significant funds into the West Penn System. Whether those funds are derived from reserves, direct premiums or bonds, ultimately those Highmark customers will pay the costs to prop up West Penn. Therefore, if Highmark is essentially going to use OPM -- *other people's money* -- to resurrect the West Penn system, it is incumbent upon the Insurance Department to ensure that this is a sound investment and that West Penn can in fact be saved at a reasonable cost. And I believe the Department must weigh whether the recent downgrade of Highmark's bond rating by Moody's casts doubt on the wisdom of this proposed acquisition.

2 – It is clear the only way West Penn can survive is to increase the number of patients it serves. Those patients must come from somewhere and the most obvious source is UPMC. However, I am extremely concerned that a Highmark-owned West Penn will pull patients from small community hospitals throughout the region even if the same level and quality of care can be provided in the community facilities. Highmark has talked a good game about this so far, but every effort must be made to ensure such predatory 'poaching' does not occur.

3 – I am also concerned that Western Pennsylvania, or at least this region, has an excess capacity of hospital beds. A recent study by the Pittsburgh Business Group on Health verifies this point. This certainly isn't an argument for West Penn's demise, but simply a statement of fact and a realization that

the massive expansion of hospital physical plants may not be sustainable. UPMC's questionable expenditure of funds on the UPMC East facility -- located almost literally within a stone's through of Forbes -- is a prime example. I would hope the Department will review current provider capacity and undertake efforts to ensure that a Highmark-owned West Penn meet s the needs of the market rather than be constructed to further excess capacity.

4 – The West Penn System must remain open to all insurers at reasonable and competitive market rates. Since Highmark has been insisting UPMC be held to this standard, then so should West Penn. I hope the Department insists on iron clad assurances in this regard.

Candidly, it is my hope that the current upheaval in our healthcare marketplace weakens the monopolies enjoyed by UPMC and Highmark in their respective fields. Their predatory practices over the years have led us to be in a situation where consumers find themselves in a healthcare marketplace overwhelmingly dominated by one insurer and one provider and left to the whims of each entity.

A healthy marketplace cannot be subject to the desires of a dominant insurer or provider. And, unfortunately, we have both in Western Pennsylvania. It is my sincere hope that the parameters and conditions placed upon a potential West Penn acquisition will be done in the interests of moving our region's health care marketplace forward by empowering consumers over the interests of so called not-for-profit enterprises that already enjoy too much dominance in the marketplace.