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Risk Management and Insurance Brokerage

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Corporate & Financial Regulation

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Pennsylvania
Insurance Department

April 2, 2012

Mr. Robert Brackbill
Chief, Company Licensing Division
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

Dear Mr. Brackbill:

I am writing to you today in reference to the proposed acquisition of West Penn Allegheny Health System by Highmark Blue Cross Blue Shield of Western Pennsylvania. As you are well aware, health care costs nationally, and more specifically, in this region continue to escalate at a rapid rate. Employers are continuing to have difficulty in absorbing the increases each and every year. We see the financial hardship and burden of providing an employer sponsored healthcare benefit to employees first hand, as we represent hundreds of businesses in the area in assisting them to assemble quality benefit programs. Something needs to be done to address these costs.

Currently, in our marketplace we have one predominant healthcare provider; that is UPMC Health System. UPMC has been successful in developing an Integrated Delivery System (IDS). They have learned from other predominant health systems and insurers (i.e. Kaiser Permanente) that an IDS is a successful way of managing the delivery of healthcare to it's members. Only having one health system in this area severely influences the costs that are paid by the insurance companies representing UPMC Health System and eventually the employer and lastly the end-user (the member). There are many components to why healthcare costs what it does. One of which is what the patient pays for services when services are provided. These costs can be controlled by having more than one viable IDS in the Western Pennsylvania marketplace. By allowing Highmark to purchase the Allegheny West Penn Health System, we can be assured of two things:

1. **Lower costs** – by having more than one viable choice for purchasing healthcare in the Western Pennsylvania area, we can be assured that these two health systems will compete against each other to provide health services at a lower and more competitive cost.

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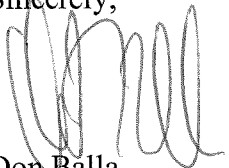
- 2. **Improve quality** – by having more than one IDS locally, we can be assured that quality of healthcare will increase and the outcomes of services will be improved.

Highmark Blue Cross Blue Shield attempted to control costs ten years ago by creating the Community Blue network. This network was offered to employer groups at a lower cost than the Select Blue network. The reason for the lower cost of the Community Blue network is that it excluded the UPMC facilities (traditionally a more expensive health system than the alternative, West Penn). Additionally, a smaller network offered can be more cost effective. The Select Blue network included all of the Western Pennsylvania based hospitals (including all of the UPMC facilities), thus making it more expensive in price. Highmark was successful in offering these two networks as a tiered approach to cost management to their customer base. The Community Blue network allowed a lower cost option and employers that were comfortable with the smaller network elected that option between 1999 and 2002, creating a member base of approximately 250,000 members. At the last Highmark/UPMC contract negotiation (June 2002), the Community Blue network went away. The reason for this was that it was a requirement by UPMC Health System on Highmark in order for them to settle and secure their 2002 contract with UPMC Health System. This proves that a smaller network can work and having these two hospital systems compete can be a viable alternative, therefore a step in the right direction in controlling healthcare costs in the region. Again, this is only one component of addressing the ever-growing concern of increased healthcare costs, but it is a serious one for this region. Most market places have more than one hospital system choice. Currently, in the Western Pennsylvania area, we do not. Allowing the acquisition of the West Penn Allegheny Health System will be a step in that direction.

The one word that would summarize the current state of affairs for healthcare in the Western Pennsylvania marketplace is: unsustainable. At this rate, no employer will be able to continue to afford to provide quality benefits to their employee base in the Western Pennsylvania area. This will cause a loss of jobs and eventually put some employers out of business.

I would be happy to address any of these concerns in greater detail. Please don't hesitate to contact me with any questions.

Sincerely,



Don Balla
 Managing Principal, Group Benefits Division

DB/SC