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Edward A. Bittner, Jr.

April 23, 2013

Cressinda E. Bybee
Sr. Insurance Company Licensing Specialist
Licensing Division
Bureau of Company Licensing and Financial Analysis
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
13th Floor, Strawberry Square
Harrisburg, PA 17120

Re: Response of UPE to Comments of Senators Don White, Robert D. Robbins, Kim L. Ward and Elder Vogel as well as Response to Comments of Samuel R. Marshall

Dear Ms. Bybee:

Enclosed please find the Response of UPE to Comments of Senators Don White, Robert D. Robbins, Kim L. Ward and Elder Vogel as well as the Response of UPE to Comments of Samuel R. Marshall, President and CEO of The Insurance Federation of Pennsylvania, Inc., filed today by UPE with the Pennsylvania Insurance Department.

Very truly yours,

Edward A. Bittner, Jr.

BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA

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

Highmark Inc.; First Priority Life Insurance Company, Inc.;
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;
Highmark Senior Resources Inc.; HM Casualty Insurance Company;
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health; Inter-County Health Plan, Inc.;
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

Response of UPE to
Comments of Pennsylvania State Senator Don White,
Pennsylvania State Senator Kim L. Ward,
Pennsylvania State Senator Robert D. Robbins, and
Pennsylvania State Senator Elder Vogel

UPE is responding to the comment from Pennsylvania State Senator Don White, Pennsylvania State Senator Kim L. Ward, Pennsylvania State Senator Robert D. Robbins, and Pennsylvania State Senator Elder Vogel dated April 17, 2013. The comment is numbered as Document 1343 on the Highmark/West Penn Cumulative Log page of the Pennsylvania Insurance Department ("Department") website.

In their letter, the State Senators conclude that competing provider networks are in the best interests of the consumer. UPE agrees that competition among viable health care delivery systems will ensure access to high-quality choices for physicians and patients and help hold the line on increasing health care costs. UPE believes that Highmark's proposed affiliation with WPAHS and its integrated delivery network (IDN) strategy are good for our community. The recent reports by the Department's consultants recognize the need for a strong WPAHS to preserve health care choice and contain health care costs in the marketplace.

The State Senators recommend that as a condition of approval of the proposed transaction, Highmark should file a "plan of transition for its policyholders if it is unable to finalize a new contract with UPMC by January 1, 2015."

Highmark has repeatedly said it wants a long-term contract with UPMC to preserve the choice of in-network access to UPMC for Highmark subscribers. A long-term contract between

Highmark and UPMC makes sense and will assure that everyone in the community will continue to have access to community assets that were built with and continue to be supported by state and local government grants, local philanthropy and insurance premiums paid by western Pennsylvania residents.

Department consultant Ms. Guerin-Calvert assessed "*it is better to permit Highmark to attempt to respond to market demand, which appears to include consumer demand for a Highmark-UPMC product* [*sic.*]" even while Highmark works with WPAHS to make it a viable constraint on UPMC. Highmark concurs in Ms. Guerin-Calvert's conclusions in this regard.

The community agrees and wants Highmark and UPMC to be both competitors and collaborators in improving health for people in western Pennsylvania. Following announcement of the mediated agreement between Highmark and UPMC in May 2012, Governor Corbett strongly encouraged UPMC and Highmark to continue their relationship because, as non-profit organizations, they should serve the people of western Pennsylvania. Any conditions that would thwart achieving this commendable goal are not in the public interest.

The State Senators recommend that approval of the proposed transaction include conditions to protect the viability of community hospitals. Independent community hospitals play a central role in the development of the new IDN. UPE, Highmark and the IDN doctors and hospitals are dedicated to delivering evidence-based health care services in convenient community-based settings in more efficient ways. For these reasons, the IDN intends to work collaboratively with community hospitals to keep care local whenever possible, and to ensure that patients receive care in their local communities to the fullest extent possible.

During the past few years, a significant volume of health care services that could be provided in the community hospital setting has been unnecessarily diverted to higher-cost-settings. Because of its size and its reach, and the significant volume of care it controls, UPMC has been driving care from community to urban-based settings as a means of generate greater revenue for its health system. Based on Highmark policyholder claims data, approximately $900 million annually has been diverted to UPMC from the service areas of community hospitals in southwestern Pennsylvania. The significant migration of care from the local community, resulting primarily from the business practices of one large health system, inconveniences patients, increases the region's health care costs and undermines the viability of community hospitals.

The IDN is the best remedy for community hospitals. The IDN will expand collaboration with community hospitals – supporting and strengthening community hospitals' efforts to keep care in the community whenever possible and promoting high-quality, more affordable insurance products.

Since Highmark and WPAHS announced their plan to affiliate in June 2011, the two organizations have repeatedly reinforced the commitment to help save and revitalize WPAHS as a vital community asset and to help preserve jobs of the health. Through Highmark's support to WPAHS thus far, Highmark has already demonstrated a commitment to maintaining and improving WPAHS facilities.

Upon closing of the affiliation, UPE will explore additional opportunities to improve the WPAHS system to help ensure the system's long-term viability and help ensure that the western Pennsylvania community continues to have access to critical, affordable quaternary and tertiary services.

UPE does not currently anticipate that there will be significant changes in staffing levels at the WPAHS facilities, aside from normal business fluctuations. A revitalized WPAHS will be a viable health care system over the long term and generate more employment opportunities. Any conditions that undermine efforts to strengthen the financial viability of WPAHS and generate more employment opportunities are not in the public interest.

UPE would like to thank State Senators White, Ward, Robbins and Vogel for their comments.

UPE
120 Fifth Avenue
Pittsburgh, PA 15222

DATE: April 23, 2013

cc: Senator Don White
Senator Kim L. Ward
Senator Robert D. Robbins
Senator Elder Vogel

Highmark's Integrated Delivery Network Will Support and Benefit Community Hospitals

Highmark Position Paper

April 22, 2013

Background

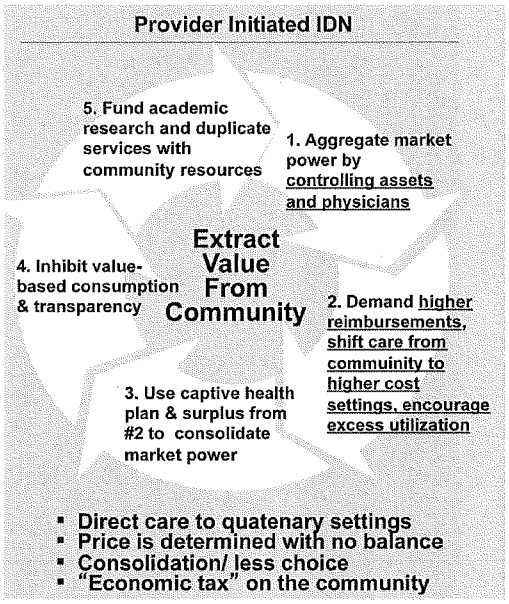
Preserving health care choice for consumers is at the core of Highmark's integrated delivery network (IDN) strategy to improve the Western Pennsylvania region's health care delivery system. Independent community hospitals play a central role in that strategy.

As a health insurance company, Highmark is highly motivated to assure that high-quality, affordable care is available to its members and group customers. Care delivered in the community is more convenient and cost-effective and, therefore, more desirable to customers. It also enhances continuity of care, which further reduces costs.

Key tenets of Highmark's IDN include convenient, quality care provided close to home, wellness and prevention programs, high levels of patient engagement, and a holistic and collaborative approach to care – all strengths of community hospitals. For these reasons, Highmark intends to work closely with community hospitals to keep care local whenever possible. (There will be exceptions for more complex cases that require a tertiary or quaternary level of care.) From Highmark's perspective, a strong, vibrant network of community hospitals is not only desirable, it is essential if Highmark is to achieve the IDN savings it has presented to the Pennsylvania Insurance Department in connection with its proposed affiliation with West Penn Allegheny Health System (WPAHS).

The benefits of maintaining and managing care through community hospitals – and why the community hospitals matter to an insurer-led IDN such as the one Highmark is creating – is illustrated in the following graphic.

By contrast, an IDN led by a quaternary provider system will have different motivations and priorities. These are illustrated in the following graphic.



Control of Care in the Community Today

Today, a significant volume of health care services that could be provided in the community hospital setting are being unnecessarily diverted to higher cost settings. Because of its size and the scope of its reach, and the significant volume of care it controls, UPMC is a key driver, and has been a key beneficiary, of this diversion in Western Pennsylvania. Based on Highmark claims data, the total amount spent on services that migrate to UPMC from the service areas of community hospitals in Southwestern Pennsylvania is approximately $900 million per year for Highmark members. This significant migration of care from the community directly impacts patients and results in higher costs of care. Two worth noting examples:

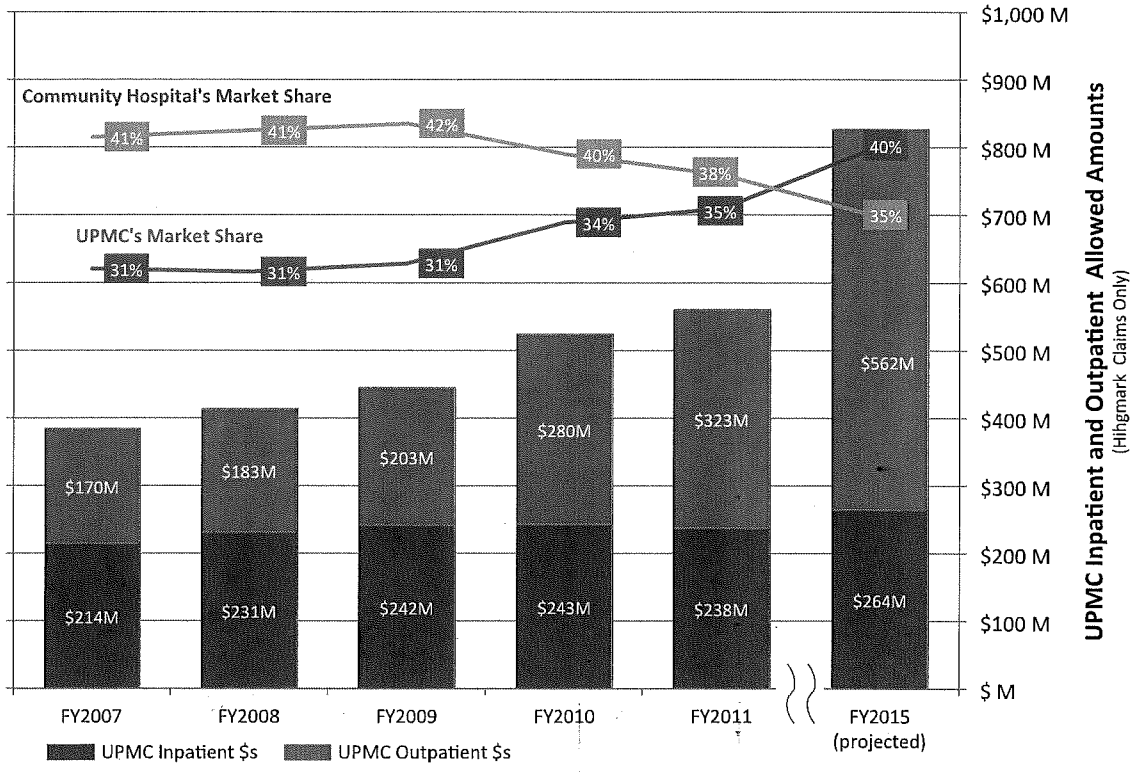
- The most significant outmigration from the community hospitals to UPMC is for routine surgical procedures. Relative unit cost differences between the community hospitals and UPMC are significant. The cost of care at UPMC facilities can be as much as 30 percent higher than at a community hospital, with no demonstrated difference in outcomes.

- The facility cost for routine diagnostic and surgical procedures performed at UPMC Presbyterian/Shadyside are 30 percent higher than at a free-standing ambulatory surgery center.

Based on Highmark claims data, over $3 billion worth of health care services have been shifted from Western Pennsylvania community hospitals to UPMC since 2007. Highmark projects that, between 2011- 2015, UPMC will capture a total of $11.25 billion of health care spending that could be performed in community hospitals. This outmigration will result in care costs that are at least $2.7 billion more than if they had been performed at community hospitals at their lower reimbursement rates, while also diverting $8.5 billion of revenues from the community hospitals.

The chart below illustrates the current trends in UPMC extrapolating revenue from community hospitals, based on data for current Highmark members and hospital-reported trends from other insurers. Without remedy through actions proposed by the Highmark IDN, this trend will continue to impact community hospitals.

Southwestern PA Projected Market Dynamics



ta Source: Highmark Claims Data for members in hospital primary serice areas
/ Assumptions: 1) Total Allowed $s increase in region at historic rate of 6.856% annually 2) Market share trends continue:UPMC +3.6% annually, 6 Bridges -1.7% annually (FY07-FY11 average rate)

As an insurer with a primary interest in lowering consumer health care costs, Highmark understands and appreciates that community hospitals provide quality care at a lower cost than tertiary care hospitals. Whereas UPMC, a system with large tertiary and quaternary care facilities with beds to fill, has a strong motivation to pull care from the community hospitals to feed its facilities, Highmark, as a large insurer, has a different motivation: to keep care in the community and other lower cost settings.

Continuing and Expanding Collaboration with Community Hospitals

Because of its view of the importance of the community hospitals, Highmark's IDN strategy will support and strengthen community hospitals' efforts to keep care in the community whenever possible and by promoting high-quality, more affordable products. In addition, Highmark is working to ensure that community hospitals have the physician resources to be successful by collaborating with community hospitals to place specialists in community-based locations. Also, Highmark is providing scholarship funding to the Lake Erie College of Osteopathic Medicine to support medical education where, in exchange for financial assistance, students agree to practice in rural and other communities where their services are needed.

Highmark intends to facilitate its objective of expanding collaboration with community hospitals through the deployment of initiatives that prominently feature these facilities.

Alternative reimbursement models – Highmark has implemented and continues to develop reimbursement models that are new and innovative. These models complement products, such as Community Blue, that Highmark has launched, and will continue to launch, in the marketplace. Referenced-based and other value-based product designs, also under development, are aimed at encouraging members to use high-quality, more affordable health care providers, which often means community hospitals.

As one example of its strategy regarding new payment models, Highmark has been working with community hospitals to develop an accountable care alliance (ACA) value-based reimbursement program. This program is designed to provide reimbursement incentives and enhanced information and care management oversight to community health systems and their physicians to assist them in improving health care quality and lowering health care costs through better management and coordination of care. One of the key features of Highmark's ACA program is the introduction of incentives for physicians to coordinate care within a local health care system. Coordination of care in this manner is better for patients and helps to reduce unnecessary variation and duplication of services that occur in the case of avoidable readmissions.

Based on conservative assumptions, implementation of Highmark's ACA model could result in at least 20 percent of the services now being performed by UPMC being shifted back to community hospitals. Such a shift would result in a significant improvement in community

hospitals' bottom lines. A hospital such as Jefferson Regional Medical Center, for example, can expect an improvement of over $25 million to its net operating margin.

Community hospitals have been actively involved in the development and deployment of Highmark's new reimbursement models. Highmark has also approached and offered 11 community hospitals the opportunity to participate in the ACA program.

Community Blue and other narrow network product opportunities – In the new IDN of which Highmark will be a part, a new high-quality health care delivery system will emphasize wellness and health prevention and will be the building block for new insurance products that Highmark will offer. These new products will give Highmark members the option of selecting physicians and hospitals at a lower cost without sacrificing quality.

Highmark's new Community Blue product was designed to limit the outmigration from the community hospitals that is currently occurring and to reward members who seek care in the local community. All of the community hospitals in Western Pennsylvania have been offered the opportunity to participate at the "enhanced" level for the Community Blue product.

Highmark also has had ongoing dialogue with a number of community hospitals in an effort to advance strategies around the development of exchange-based networks/products and high-performance networks and products that will be centered around our ACA program.

Community Blue co-marketing opportunities – A number of community hospitals have been offered the opportunity to co-market Highmark's Community Blue product in their local communities. Co-branding makes the community hospital an integral part of the product offering, thus enhancing the hospital's profile with potential patients. The opportunity comes with a commitment by Highmark to help cover the costs of print, billboard, and digital advertising for the hospitals.

Supply Chain Management – In 2012, Highmark created a supply chain management company, Provider PPI, to assist community hospitals with the purchase of goods and supplies used in the hospital. Highmark's goal in creating Provider PPI was to allow community hospitals to achieve valuable cost savings while containing their overall cost of care. Offers for participation in PPI have been made to all of the community hospitals in Western Pennsylvania. In addition to WPAHS and Saint Vincent, PPI has executed contracts with eight community hospitals.

Health Information Exchange – In addition to providing a significant annual investment to make available a real-time provider portal, NaviNet, which enables community hospitals to conduct on-line transactions, Highmark is in the process of establishing a health information exchange (HIE) to enable the electronic exchange of clinical information among participants. The goal of both these initiatives is better coordinated patient care, improved patient safety, improved clinical outcomes and improved ability to manage chronic conditions.

Highmark's HIE will be provided free of charge to participants, including community hospitals. It will allow for the exchange of information for all patients, regardless of payor. Throughout the next five years, Highmark will invest substantially in the HIE to benefit the community.

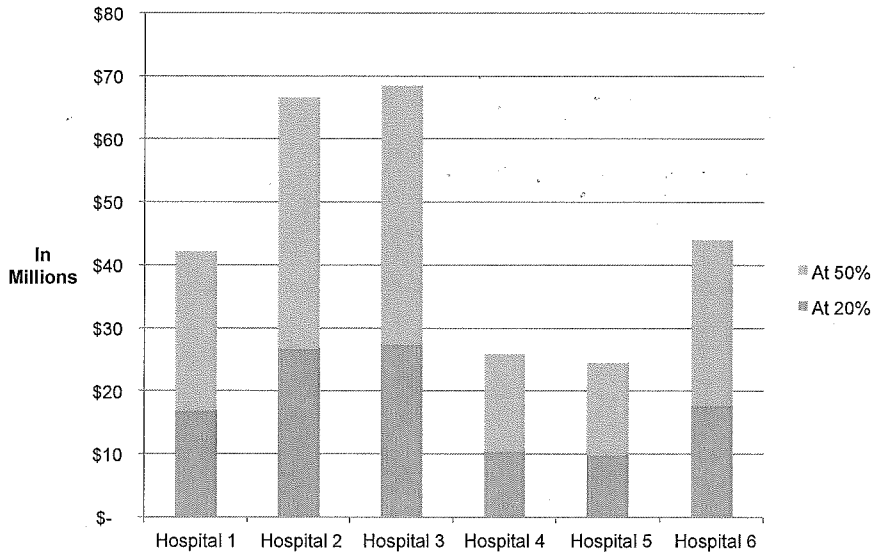
Transparency tools – Highmark is expanding its information transparency tools to help members compare cost and quality effectiveness across providers. These tools will help Highmark members better understand the cost and quality trade-offs that exist when selecting a physician or hospital. These tools assist community hospitals in keeping care with them because consumers are a making decisions based on quality and costs – two measures where community hospitals succeed in a consumer-driven environment.

New health information technologies and capabilities will serve as the foundation for the new system, helping hospitals and physicians make more informed decisions for their patients, reduce administrative hassles and meet government requirements. The existence of multiple health system options will allow doctors to offer more referral choices to their patients and sustain adequate patient volumes to retain a viable office practice in the region.

These programs underscore Highmark's commitment to keeping care in the local communities under the control of local community providers.

Community hospitals do not need to become affiliated with Highmark in order to benefit from any of these programs designed to keep care in the community. The graphic below illustrates the projected net income impact to community hospitals from retaining 20 to 50 percent of the outmigration currently going to UPMC facilities.

Projected Net Income Impact to Community Hospitals from retaining the outmigration going to UPMC Facilities



Conclusion: Community Hospitals are Critical to the Highmark IDN

Preserving community care benefits the community. It boosts the economic vitality of the region and preserves stronger, more economically viable communities throughout Western Pennsylvania. A strong, vibrant network of community hospitals is vital to the success of Highmark's IDN. It is important to local communities where community hospitals often play a vital public role beyond the delivery of care.

With more than seven decades of serving the community and partnering with hospitals, Highmark looks forward to collaborating with community hospitals as our health care system continues to evolve. Highmark is committed to working with community hospitals to support improvements in health care that will enable them to remain independent and will assure affordable access to quality medical care for Highmark's members in community-based settings.

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By UPE, a Pennsylvania nonprofit corporation

Response of UPE to
Comments of Samuel R. Marshall,
President and CEO,
The Insurance Federation of Pennsylvania, Inc.

UPE submits this response to the letter dated April 19, 2013 from Samuel R. Marshall, President and CEO, The Insurance Federation of Pennsylvania, Inc. (the "Federation"), to the Pennsylvania Insurance Department (the "Department") regarding the Form A filing currently pending before the Department regarding, inter alia, the proposed change of control of Highmark Inc. ("Highmark") in favor of UPE. The Federation is a trade organization representing insurance companies that compete with Highmark in the Pennsylvania market. Various of the Federation's members have provider contracts with UPMC, the largest provider system in western Pennsylvania.

Mr. Marshall advances two arguments in his letter: (1) that the Department should avoid a "quick decision" on UPE's Form A and add time to the review process to allow additional public comment and a second public hearing; and (2) that, in any case, any approval of the Form A should be conditioned upon termination of Highmark's provider contracts with UPMC in December 2014.

1. Recommendation to Add Time to the Review Process

Mr. Marshall states that the Department's review of the Form A "hasn't provided much time for considered or widespread review"; that the Department should avoid making a "hurried decision with limited questioning"; and that "a few more weeks" would "ensure that substantive

recommendations – from [the Federation] and others – get proper consideration . . .."

UPE filed its Form A application in November 2011 – seventeen months ago. In the months since the filing, UPE, Highmark and the West Penn Allegheny Health System ("WPAHS") have produced tens of thousands of pages of documents to the Department and its advisors; responded to hundreds of questions (and numerous public comments); and participated in countless hours of meetings and conference calls reviewing every conceivable aspect of the proposed transaction.

In November 2011, shortly after UPE filed the Form A, the Department opened a public comment period with respect to the filing; that period remained open until June 1, 2012. On July 28, 2012, the comment period was reopened, that comment period remained open until April 19, 2013 following delivery of expert reports to the Department.

In April 2012, the Department held a public hearing on the filing. The hearing lasted a full day spread over two sessions (day and evening), and featured 48 speakers, including Mr. Marshall. Mr. Marshall also provided written comments during the first public comment period. His comments, contained in a letter dated April 12, 2012, also recommended that the Department condition any approval of the Form A on termination of the Highmark-UPMC contract in 2014.

In brief, the Department's review of the Form A has been intense, wide-ranging, in-depth and thorough – as demonstrated by the reports produced by its consultants. The public has had more than adequate opportunity to comment on the filing during the public comment periods, which encompassed fourteen of the seventeen months immediately following the filing and, given that no new issues were raised in any of the latest comments received by the Department, no additional time is required to assure that substantive recommendations received in this forum have been given consideration. This is particularly true in the case of the Federation since Mr. Marshall's April 19, 2013 letter adds nothing new to the considerations he raised in his first public comments on this matter 12 months ago.[1]

2. Termination of UPMC Provider Agreements

In making his case for requiring termination of the Highmark-UPMC contracts in 2014, Mr. Marshall states that Highmark has been "evasive" with respect to its intentions in this regard. Highmark believes that it has been clear and unequivocal on the matter, but, if it has not, it wishes to be so here: Highmark intends to pursue a new long-term contract with UPMC that will afford its customers and subscribers with in-network access to UPMC facilities after 2014. Highmark believes that this is in the best interest of those customers and subscribers. It also believes that this is in the public interest.

Ms. Guerin-Calvert expressly states in her report that she had considered Mr. Marshall's suggested condition. She writes:

[1] In her report to the Department, Ms. Margaret E. Guerin-Calvert of Compass Lexecon, expressly considered the issues raised by the Federation it its letters. See below.

> [S]everal commenters recommended that the [Department] preclude Highmark from renewing its contract with UPMC in the future. The stated rationales were the financial ramifications of continued inclusion of UPMC in-network on WPAHS volumes and the stability and success of the IDN and Affiliation, and the ability of Highmark to continue to have lower prices and cost structure at both UPMC and WPAHS relative to rivals. Having assessed all of the factors, I draw the conclusion that *it is better to permit Highmark to attempt to respond to market demand, which appears to include consumer demand for a Highmark-UPMC product [sic.] and to develop strategies for successful revitalization of WPAHS, than to artificially restrict Highmark's options, protected if necessary by specific conditions, to discipline Highmark's conduct.*"[2]

UPE concurs in Ms. Guerin-Calvert's comments.

For the above reasons, UPE respectfully requests that the Department reject Mr. Marshall's proposed conditions.

UPE
120 Fifth Avenue
Pittsburgh, PA 15222

DATE: April 23, 2013

cc: Samuel R. Marshall

[2] Compass Lexecon Report, 195 (emphasis added).