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Prepared Statement of Senator Jim Ferlo (PA-38) Pennsylvania Insurance Department Public Hearing

Tuesday, April 17, 2012
7 p.m.

Westin Convention Center
1000 Penn Avenue
Pittsburgh, PA 15222

**HIGHMARK &
WPAHS**

***HEALTH CARE**

***JOBS**

***COMMUNITIES**

PLEASE APPROVE!!

I.
Introduction

Good Morning, Commissioner Consedine and distinguished members of the panel - welcome back to Pittsburgh, and thank you for hosting this hearing.

I'm State Senator Jim Ferlo and I represent Pennsylvania citizens and businesses that reside in the 38th Senate District. My district includes the City of Pittsburgh and 25 local communities in the Allegheny River valley-area. My district is also home to three West Penn Allegheny Health System (WPAHS) facilities – West Penn Hospital in Bloomfield, Alle-Kiski Medical Center in Natrona Heights, and Allegheny General Hospital on the North Side.

With me today are members of a community-based coalition that represents the workers, residents, and communities that rely on these facilities. I'll talk more about the coalition shortly. As their elected representative in the Pennsylvania Senate, I appreciate the opportunity to express my support for the Highmark-West Penn Allegheny Health System affiliation agreement, and my comments will touch on three key points.

First, expedited approval of this affiliation by the Pennsylvania Insurance Department is supported by a majority of elected state representatives from throughout Southwestern Pennsylvania – especially here in Allegheny County and the City of Pittsburgh. Importantly, a large, skilled workforce of professionals and paraprofessionals numbering in the thousands is providing vital health care services on a 24/7 basis. It is also our hope that the affiliation will increase competition and lead to a reduction in the cost of health insurance in western Pennsylvania.

Second, Highmark has demonstrated considerable good faith in their proposed affiliation with West Penn Allegheny, and this affiliation is likely the only way to save West Penn Allegheny from financial collapse.

Third, working with the Legislature to adopt policy reforms that hold health care providers accountable and increase community involvement in health

planning processes should be a high priority for the Pennsylvania Insurance Department.

II.

EXPEDITED APPROVAL OF THE AFFILIATION HIGHMARK/WPAHS AFFILIATION AGREEMENT IS SUPPORTED BY A CONSENSUS OF ELECTED STATE REPRESENTATIVES AND SENATORS FROM WESTERN PENNSYLVANIA BECAUSE IT WILL INCREASE COMPETITION AND IT WILL LEAD TO A REDUCTION IN THE COST OF HEALTH INSURANCE IN WESTERN PENNSYLVANIA.

You will hear from a number of elected officials today, who represent local communities including the City of Pittsburgh, as well as state legislative districts. I believe that most, if not all of them will express their support for an expedited review and approval of the Highmark-West Penn Allegheny affiliation agreement.

We support expedited approval because we believe that the affiliation will provide the basis for increased competition in the western Pennsylvania health care markets. As a consequence, competition is likely to increase in the health insurance markets as well, which will lead to a decrease in price of premiums. On top of this, we know that a lack of competition has become a serious problem in our region.

The contract standoff between Highmark and the University of Pittsburgh Medical Center (UPMC) has made this last point painfully clear. Since August 2011, the state House Insurance Committee and the state Senate Banking and Insurance Committee have hosted numerous public hearings in attempts to resolve this dispute.

Coming out of these hearings, Democrats and Republicans agree that increased competition could have avoided the dispute altogether. The question is not whether there should be more competition, but what role the state should play to ensure more competition. By approving the Highmark-West Penn Allegheny affiliation, the Insurance Department will allow the local market to evolve without direct state intervention.

Last week, the United State Department of Justice approved the proposed affiliation and announced that it is likely to increase competition in our region's hospital, physician services, and health insurance markets. The Insurance Department's review will consider other factors, and I appreciate the strict level of due diligence that is required of the Department's review. We are hopeful, but not presumptuous, about the due diligence that you and your staff will perform but hopefully this hearing will showcase the broad community support for this approval.

III.

HIGHMARK HAS DEMONSTRATED CONSIDERABLE GOOD FAITH IN THEIR PROPOSED AFFILIATION WITH WPAHS AND THIS AFFILIATION IS THE ONLY WAY TO SAVE WPAHS FROM FINANCIAL COLLAPSE.

As you know, the most immediate goal of Highmark's application is to create an Integrated Finance and Delivery System or IFDS. Their plan is to do this by merging their nonprofit health finance system, with West Penn Allegheny's nonprofit health care system. Ultimately, the plan is to house both organizations under a neutral umbrella nonprofit corporation called UPE. Highmark has committed to investing \$475 million in the affiliation and a large amount of that commitment has already been demonstrated.

Highmark is the largest health insurance provider in Pennsylvania, with three million subscribers and control over 60% of the health insurance market in Allegheny County. Compare this to West Penn Allegheny, which currently has a negative operating margin and reported a net loss of over \$30 million during the last quarter of 2011. The fact that Highmark has agreed to affiliate with West Penn as equals under a neutral umbrella corporation demonstrates considerable good faith on the part of Highmark.

In the past I have joined in criticizing Highmark for stowing away over \$4.1 billion in reserves. But here, Highmark is putting its reserves to good use by investing in the rebirth of West Penn Allegheny. For Highmark, the affiliation is a sound business endeavor that is also charitable. Without Highmark as a financial partner, the financial collapse of West Penn Allegheny is certain.

In addition, Highmark has demonstrated considerable good faith by investing \$150 million in West Penn Allegheny since June 2011, even before the approval of their affiliation agreement. Additional examples of such positive efforts continue emerge. Last week, Highmark announced a Braddock-based partnership with Med Express, to serve the health care needs that were abandoned when UPMC closed Braddock Hospital.

However, West Penn Allegheny still faces serious financial challenges including the immediate possibility of bankruptcy. Time is of the essence. If the Insurance Department does not expedite approval of this proposed affiliation, Highmark's multi-million dollar investments in West Penn Allegheny will go to waste. In addition, thousands of health care practitioners in my district will be out of a job, and the thousands more who depend on them for medical care will be out of options.

The Pennsylvania citizens and businesses that reside in my district cannot afford such an economic catastrophe. Western Pennsylvania as a whole cannot afford it, especially in these difficult economic times. In addition to the lost jobs and economic activity the region will be left with one monopolistic health care system that will be able to demand unreasonable costs in an already overpriced market.

After decades of urban flight, the Pittsburgh region expects an influx of 100,000 new residents over the next 25 years. One of the greatest threats to the future of this region is the possible collapse of West Penn Allegheny. If Pittsburgh is the economic engine of Western Pennsylvania, saving West Penn Allegheny is like replacing a broken cylinder. Without West Penn Allegheny, our region's economy cannot move forward at full throttle, but that is exactly what is required if we are to continue down the path of progress.

IV.

WORKING WITH THE LEGISLATURE TO ADOPT POLICY REFORMS THAT HOLD TAX-EXEMPT HEALTH CARE PROVIDERS ACCOUNTABLE BY INCREASING COMMUNITY INVOLVEMENT IN THE HEALTH PLANNING PROCESS SHOULD BE A HIGH PRIORITY FOR THE PENNSYLVANIA INSURANCE DEPARTMENT.

As market conditions further evolve, we must strive to meet these changes with proactive public policy reforms. I believe that such reforms should primarily seek to reduce health insurance costs and improve the quality of care – these are not mutually exclusive goals. Hospital closings, double-digit health insurance premium increases, contract standoffs between dominant health care and insurance providers – these situations are detrimental to the public at large and can be avoided in the future. They must be avoided, if only because they cause the cost of insurance to increase but do not lead to improvements in the quality of care.

Large capital expenditures for competing facility construction, instead of allocating health care resources targeted to specific community health needs, must be given critical review and approval with input from the community and patients in need.

Commissioner, I am asking you to be proactive about this, and to work with the legislature in Harrisburg to enact policies that embrace the forthcoming market changes.

As I mentioned at the outset, with me today are members of the Community Collaborative Stakeholders coalition. This impressive and inspiring group is composed of elected officials from the city, state, county, and federal governments, as well as community-based organizations in the fields of neighborhood development, consumer health advocacy, and labor advocacy.

We initially convened in response to the 2010 closing of West Penn Hospital's emergency room. Since then we have worked closely with West Penn Allegheny officials, to support them as a community, and to do our part to help them through the difficult financial times that they are facing.

The relationship that has developed between our group and West Penn Allegheny demonstrates that open communication and collaboration between health care providers and affected communities is essential to stable, efficient, and accessible health insurance markets.

For example, our group met with Highmark officials when news of the possible affiliation first broke, and urged them to show good faith in moving forward with the deal by providing the necessary funds to re-open West Penn's emergency room. Today, West Penn's ER once again employs practitioners, cares for patients, and supports local businesses. A similar collaboration with affected communities in Braddock, laid the groundwork for the recently announced partnership between Highmark and Med Express.

These models suggest that open communication and collaboration between health care providers and affected communities lead to market efficiencies, which in turn should lead to reduced health insurance premium costs. Public policies should encourage health care providers and local communities to work together to identify and address community health needs, as well as other economic benefits that these institutions and communities provide for each other.

I am sponsoring Certificate of Need legislation as a vehicle for these tried and tested community-involvement models. My hope is to reinvent the Certificate of Need process, so that communities get involved on the front-end of the long-term planning decisions of health institutions, rather than in reaction to disinvestment decisions such as hospital closings.

The process that produced the Highmark-West Penn Allegheny affiliation agreement has resulted in financial and community investments that should not go to waste. These investments have laid the groundwork for important market changes and policy reforms. I look forward to working closely with the Insurance Department as western Pennsylvania continues to adapt to these changes.

V. CONCLUSION

Thank you for your attention. I am confident that you will give all of today's speakers the time, attention and consideration that their comments deserve and require. They have come to present their considerable expertise and diverse perspectives because they care about the future of this region, and are

committed to doing everything they can to assist you in making the decision that Highmark's application deserves.

I would be remiss if I did not indicate my appreciation for the men and women who work day in and day out, many at the lower end of the employment wage scale, and most without the protections afforded by union representation and collective bargaining. We all should thank these men and women who care for the people we care about and be sensitive to their quality of life as well.

I would also be remiss if I did not mention that the financial crisis and lack of sustainability in our American health care system can only be resolved by enacting a national Medicare for all single payer system that guarantees consumer choice in selecting doctors and providers. Everybody In and Nobody left out. Thank you.