

1256

Brackbill, Robert

From: Brackbill, Robert
Sent: Friday, February 22, 2013 11:51 AM
To: 'jack.stover@bipc.com'
Cc: 'Chronister, Ronald'
Subject: Highmark/UPE Form A Filing: Letter from Deputy Commissioner Steve Johnson
Attachments: Johnson Ltr 02222013.pdf

Mr. Stover,

Please see the attached.

Robert E. Brackbill, Jr. | PIR | Chief, Company Licensing Division
Insurance Department | Office of Corporate and Financial Regulation
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1256

February 22, 2013

Jack M. Stover, Esquire
Buchanan Ingersoll & Rooney PC
One South Market Square
213 Market Street, 3rd Floor
Harrisburg, PA 17101-2121

RE: Application of UPE for Approval of the Acquisition of Control of Highmark, Inc. and its Pennsylvania Domiciled Insurance Subsidiaries (the "Form A Filing") - Request for additional information based on the assumption that the Highmark/UPMC contract is extended beyond December 31, 2014.

Dear Mr. Stover:

In reviewing Amendment 2 to Form A ("Amendment No. 2"), the Department has become concerned that the financial projections in the filing are inconsistent with Highmark's stated intention and actions. This inconsistency brings into question Highmark's objective in pursuing this transaction and its long-term commitment to West Penn.

Specifically, the filing assumes that the Highmark/UPMC contract will not be extended beyond December 31, 2014. However, Highmark is actively seeking to have the Highmark/UPMC contract extended. This concern comes not only from the Department's review of Amendment 2 but also from questions raised by others, including Senator Don White's letter to Dr. Winkenwerder, a copy of which is attached. The Department expects Highmark to respond fully to Senator White's letter and to file a copy of the response with the Department.

Neither the Department nor the public can assess adequately the Form A filing under the circumstances where Highmark is actively pursuing an extension of its contract with UPMC while not disclosing any financial projections showing what would happen if Highmark is successful in those efforts.

Therefore, please provide the Department, in a public filing, with an analysis that demonstrates the financial implications, enrollment/discharge implications and implications for projected IDN savings for the alternative scenario that the Highmark/UPMC contract is extended beyond December 31, 2014. Please include any assumptions made as to the terms of the UPMC contract extension.

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In addition, the public filing must include separate financial projections that show the impact of a possible Highmark/UPMC contract extension on the financial condition of each of the following:

- 1) West Penn Allegheny Health System;
- 2) Highmark;
- 3) UPE Provider Sub; and
- 4) UPE.

In addition, please revise the Form A filing to the extent any new information is inconsistent with material previously submitted. Prompt receipt of the requested material will permit the Department to continue its review of the proposed transaction in an expeditious fashion. Therefore, the Department requests that UPE/Highmark provide the information requested in this letter on or before March 8, 2013.

No decision will be made with regard to the filing until the requested information is filed, the public has a chance to review it and submit comments, and the Department and its consultants have time to adequately review the transaction in light of the requested information.

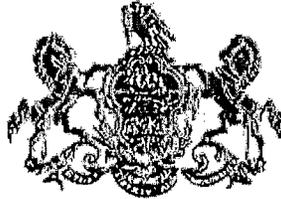
Sincerely,

A handwritten signature in cursive script that reads "Stephen Johnson /ceb".

Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation

Attachment

State Senator
Don White
41st Senatorial District



Senate of Pennsylvania
February 14, 2013

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Dr. William Winkenwerder, President & CEO
Highmark
Fifth Avenue Place
120 Fifth Avenue, Suite 111
Pittsburgh, PA 15222-3099

Dear Dr. Winkenwerder:

Thank you for your recent letter expressing Highmark's desire for the residents of western Pennsylvania to have open access to all health care providers and insurers. Such a desire is laudable.

However, for almost two years, I've observed rather extraordinary events in western Pennsylvania revolving around two separate but related matters which have caused a great deal of discontent:

- 1) The financial distress of the West Penn Allegheny Health System (WPAHS) and Highmark's evolving affiliation agreement seeking to return the system to a profitable status while competing with the University of Pittsburgh Medical Center (UPMC), and;
- 2) The UPMC/Highmark insurance contract now set for expiration on January 1, 2015.

The outcome of these two matters will have profound consequences on the long term delivery of health care in western Pennsylvania and deserve thorough and deliberate scrutiny by the Pennsylvania Insurance Department (PID), your policyholders, the employees of WPAHS and the citizens of western Pennsylvania.

Since our January 23rd meeting with Sen. Scarnati, I've considered Highmark's stated desire to have both the WPAHS affiliation approved by the PID no later than April 30, 2013 and an extended long term insurance contract executed with UPMC as soon as possible. Candidly, the content of the most recent affiliation agreement and prior public statements by Highmark officials are inconsistent and require clarification.

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Primarily, I'm concerned about the consequences a long term insurance contract between Highmark and UPMC could have on Highmark's ability to execute the turnaround of WPAHS as envisioned in your amended affiliation agreement. Two excerpts from the filing clearly state Highmark does not anticipate a long term arrangement with UPMC and that your projections are based on the contract not being renewed after January 1, 2015.

On page 143 of the document, 1210 it states:

"Highmark's contracting position with UPMC - The contract extension between Highmark and UPMC requires Highmark to pay higher contracting rates than it had been paying in order to secure in-network access to UPMC facilities and UPMC physicians through December 2014. Although Highmark intends to continue to pursue a longer term agreement with UPMC, UPMC has publicly stated that it does not intend to renew the contracts. Accordingly, the projections assume that UPMC will not renew the contracts, and access to certain UPMC facilities will be terminated, effective December 31, 2014"

On page 148, the document further states:

"Highmark Product Changes - Anticipated volume changes associated with the introduction of new insurance products were incorporated into the projections. As was noted above, the projections assume that UPMC will not renew its contracts with Highmark and access to certain UPMC facilities will be terminated effective December 31, 2014. Additional volume was incorporated into the projections due to these UPMC facilities being out of Highmark's network at that time."

Further, on August 1, 2012, Deb Rice, Division President of Health Services, testified before the Senate Republican Policy Committee that WPAHS will require an increase of over 20,000 new admissions annually to make the system viable and that every new admission would "absolutely" come at the expense of UPMC because "eventually we're not going to have a contract with UPMC, likely... so the capacity will be necessary for our members." When considering the overall patient volume of western Pennsylvania is declining, and Highmark's acknowledgement that all new admissions to WPAHS will be at the expense of UPMC, I'm sure you can appreciate my skepticism that such a drastic shift of patient volume can occur unless those insured by Highmark are no longer given the option of accessing UPMC doctors and hospitals.

Given Highmark's recently stated desire to secure a long term contract, I believe any review of the WPAHS affiliation agreement will be comprehensive only after Highmark provides projections on the viability of the WPAHS affiliation agreement if a long term contract is signed between Highmark and UPMC.

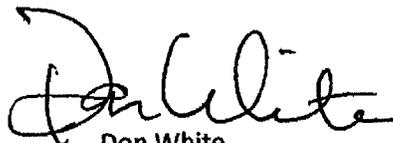
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Therefore, I respectfully ask that any analysis completed on Highmark's behalf which demonstrates the impact a long-term contract between Highmark and UPMC will have on the efforts to revive WPAHS be amended to your most recent affiliation agreement. If no such analysis exists, I strongly encourage one be completed in a timely manner in order to provide the Insurance Commissioner, your policyholders, the employees of WPAHS, community hospitals and the citizens of western Pennsylvania with an opportunity to fully understand the impact a long term contract with UPMC will have on Highmark's ability to turn WPAHS around. If it is Highmark's desire to continue its contracted relationship with UPMC, I believe this must become part of the Insurance Department's public record as this omission may not only result in an inaccurate and incomplete record but lead to a decision by the Department not based on Highmark's actual strategic direction.

Alternatively, Highmark could clarify that it does not intend to pursue a contract with UPMC beyond January 1, 2015 which would assure all parties that the current WPAHS filing accurately reflects the anticipated landscape of the health care marketplace in western Pennsylvania.

I would appreciate your prompt response clarifying Highmark's position on these matters.

Sincerely,



Don White
Senator, 41st District

DCW/lst

- cc: The Honorable Tom Corbett
- The Honorable Michael Consedine
- The Honorable Joe Scarnati