

PENNSYLVANIA INSURANCE DEPARTMENT  
PUBLIC INFORMATIONAL HEARING

RE: PROPOSED MERGER BETWEEN :  
HIGHMARK, INC., and BLUE CROSS :  
OF NORTHEASTERN PENNSYLVANIA :

TRANSCRIPT OF PROCEEDINGS

Public hearing held in the Casey  
Ballroom of the Hilton Scranton and Conference  
Center, 100 Adams Avenue, Scranton, Pennsylvania,  
on Wednesday, November 12, 2014, commencing at 9  
o'clock a.m., stenographically recorded by James P.  
Gallagher III, Registered Diplomate Reporter, and  
Steven R. Mack, Certified Realtime Reporter.

BEFORE: PENNSYLVANIA INSURANCE DEPARTMENT

MICHAEL F. CONSEDINE, Commissioner  
KIMBERLY RANKIN, Director  
YEN LUCAS, ESQ., Chief Counsel

\* \* \*

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1                   COMMISSIONER CONSEDINE: Good morning,  
2                   everybody. Well, I have straight up 9 o'clock here.  
3                   So one of the qualities of Pennsylvanians that I  
4                   admire most is our adherence to sticking to time  
5                   schedules as best we can, and we have a lot of  
6                   ground to cover today, so it's my pleasure to say  
7                   good morning, and welcome to the Pennsylvania  
8                   Insurance Department's Public Informational Hearing  
9                   on Highmark's proposed acquisition of and control of  
10                  Blue Cross of Northeastern Pennsylvania and its  
11                  insurance company subsidiaries.

12                  I am Mike Consedine, Insurance  
13                  Commissioner of the Commonwealth of Pennsylvania.  
14                  As Insurance Commissioner I will make the ultimate  
15                  decision to approve or disapprove the proposed  
16                  transaction. We recognize that this transaction  
17                  carries with it very significant economic  
18                  implications for this regardless of whether it is  
19                  approved or disapproved. Consequently, we are very  
20                  interested in hearing from those in this community  
21                  about this transaction. And this is what today is  
22                  all about.

23                  By way of some private background, in  
24                  February of this year Highmark submitted a Form A  
25                  filing to the Department that is the subject of

1       today's hearing. In the filing Highmark asked the  
2       Insurance Department to approve its acquisition of  
3       control of BCNEPA and its insurance company  
4       subsidiaries through the merger of BCNEPA and its  
5       subsidiaries into Highmark.

6               The Department will make its decision  
7       based on a statute called the Insurance Holding  
8       Companies Act. This Act requires the Department to  
9       look at a number of factors, including the impact of  
10      the transaction on competition in insurance, the  
11      effect of the transaction on policy holders, and  
12      whether the transaction is likely to be hazardous or  
13      prejudicial to the insurance buying public.

14             Another factor that the Department  
15      will evaluate is the competence, experience, and  
16      integrity of company management.

17             The Department staff responsible for  
18      review the filing are seated here today with me. To  
19      my immediate left is Kim Rankin, a Director from the  
20      Office of Corporate and Financial Regulation. Kim  
21      is subbing in for Deputy Commissioner Steve Johnson  
22      who unfortunately could not be with us today since  
23      his father passed away last night. So our thoughts  
24      and prayers go out to the Johnson family and our  
25      colleague, Steve.

1                   To my right is Yen Lucas, Chief  
2                   Counsel for the Insurance Department.

3                   I would also like to introduce several  
4                   other individuals from the Insurance Department.  
5                   Other key staff here with us today include Chris  
6                   Spivey, our Senior Company Licensing Specialist,  
7                   along with Roseanne Placey and Melissa Fox from our  
8                   Communications Office. Also in attendance are  
9                   Martin Alderson-Smith, Brett Newman, Cooper Wright,  
10                  and Kristin Hughes, from the Department's  
11                  independent financial adviser, the Blackstone Group,  
12                  and Margaret Guerin-Calvert, Susan Manning, and Bo  
13                  Burke from the Department's independent economic  
14                  consultant, Compass Lexecon. The Department's  
15                  outside counsel are in attendance as well, Larry  
16                  Beaser and Bill Gramlich from Blank Rome, LLP.

17                  The purpose of today's hearing is not  
18                  to reach a final decision on the Form A filing. The  
19                  purpose really of today's hearing is to receive  
20                  comments from interested persons to aid the  
21                  Department in ultimately reaching a decision on the  
22                  filing and to allow Highmark and BCNEPA to discuss  
23                  the details of the proposed transaction.

24                  The entire record of the filing  
25                  including the transcript of today's hearing will be

1 reviewed by the Department before any final  
2 conclusions are reached. The Department will  
3 closely consider any comments about the filing  
4 presented today. I certainly encourage those of you  
5 who are here to make comments here today, to feel  
6 free to engage in the discussion with us. As I  
7 said, we are very interested in receiving those  
8 comments and input from the community. We know that  
9 this hearing is also being webcast and likely being  
10 watched by members of the community, and I would  
11 note that in addition to today's session we will  
12 also have an evening session, so folks who are not  
13 able to make it here this morning are certainly  
14 welcome to attend tonight's session and provide us  
15 with comments.

16           Once again, no final decision will be  
17 rendered at the conclusion of today's hearing.  
18 However, we understand the need to move  
19 expeditiously and will proceed with focus and  
20 purpose.

21           The publicly available record thus far  
22 will consist of all public documents filed by  
23 Highmark and BCNEPA and their counsel and  
24 consultants, as well as any written comments  
25 received from the public or interested persons, and

1 any responses to those comments from Highmark.

2 Public portions of the Form A filing  
3 and related documents have been and remain available  
4 on the Department's internet website, and the  
5 Department's offices in Harrisburg.

6 This is a public informational hearing  
7 similar to a town meeting, or a city council  
8 meeting. All interested persons are invited to  
9 provide their comments or raise questions for the  
10 parties, and the Department's consideration about  
11 the Form A filing. However, there are a number of  
12 people who wish to speak. So I must ask you to  
13 address your comments to the given subject and to be  
14 as concise as possible. Also, please address your  
15 comments to me and the panel in the front of the  
16 room.

17 The Department's Chief Counsel, Yen  
18 Lucas, will provide more detailed information about  
19 the procedures for today's hearing.

20 Now I will ask Kim Rankin to give some  
21 details regarding the filing and the Department's  
22 review process.

23 Kim.

24 MS. RANKIN: Thank you, Commissioner.

25 I am Kim Rankin, the Director of

1       Company Licensing and Financial Analysis for the  
2       Department's Office of Corporate Financial  
3       Regulation. As Commissioner Consedine stated, I am  
4       here on behalf of Deputy Commissioner Steve Johnson.  
5       We are responsible for company licensing and  
6       financial oversight, including onsite financial  
7       examination of approximately 275 domestic insurance  
8       companies, 1,400 non-domestic insurance companies,  
9       and 230 continuing care retirement communities. Our  
10      regulatory authority also extends to eligible  
11      surplus lines insurance companies and risk retention  
12      groups. The Deputy Commissioner and I with the able  
13      assistance of our staff are responsible for the  
14      review of all corporate transactions involving  
15      Pennsylvania domestic insurance companies, and we  
16      will assist Commissioner Consedine to enable him to  
17      make a decision on the filing.

18               As the Commissioner explained, the  
19      Department is being assisted in its review by the  
20      Blackstone Group. Blackstone is evaluating the  
21      financial aspects of the transaction. The  
22      Department is also being assisted by its economic  
23      consultant, Compass Lexecon, which is evaluating the  
24      economic impact of the transaction. Additionally,  
25      the Department has engaged Blank Rome, LLC as legal



1       counsel.

2                   As Commissioner Consedine mentioned,  
3       the Department's review process began in February of  
4       this year when Highmark submitted the filing. The  
5       Department published notice of the filing in the  
6       Pennsylvania Bulletin on March 1, 2014. The notice  
7       advised the public on how to assess the public  
8       filing, and invited interested persons to provide  
9       comments to the Department about the filing. The  
10      Department is and has been accepting comments by  
11      mail, fax, or e-mail. As of November 11, 2014, the  
12      Department has received 19 public comments from  
13      interested persons. These comments are in the  
14      public files and available on the Department's  
15      internet website, [www.insurance.pa.gov](http://www.insurance.pa.gov).

16                  The public files include the  
17      Department's notice of the filing and invitation for  
18      public comments. In addition to public comment, the  
19      public files contain the initial filing made by  
20      Highmark, and thousands of pages of supplemental  
21      documents supplied by Highmark to the Department.  
22      Most of these documents were submitted in response  
23      to questions and requests for additional information  
24      from the Department. In addition, there is an index  
25      of all the documents that are contained in the

1 public file. Copies of the public file index are  
2 available for inspection at the registration table.  
3 The public files and the public file index are  
4 available on the Department's internet website at  
5 [www.insurance.pa.gov](http://www.insurance.pa.gov).

6 The public files are also available  
7 for review and copying at the Department's office in  
8 Harrisburg. You may also submit a request for  
9 copies of particular documents by fax or by e-mail.  
10 The government rate for copying is 25 cents per  
11 page. We request that the copying and shipping  
12 charges be prepaid.

13 Further details about the procedures  
14 from today's hearing will be explained by Chief  
15 Counsel Yen Lucas.

16 Yen.

17 MS. LUCAS: Thank you, Kim. Good  
18 morning. My name is Yen Lucas and I'm Chief Counsel  
19 for the Pennsylvania Insurance Department and a  
20 member of the Governor's Office of General Counsel.

21 I'd like to also welcome all of you  
22 here today. As Commissioner Consedine stated, the  
23 purpose of today's hearing is not to reach a final  
24 decision on the filing but rather to provide a  
25 public forum for all interested persons to provide

1        comments relating to the Form A filing. Your  
2        comments and the information that are gathered here  
3        today will be considered along with all other  
4        materials the Department has received as it  
5        continues its review and analysis of the filing.  
6        Accordingly, this hearing is being recorded by a  
7        court reporter. The Department will review the  
8        transcript of today's hearing as part of its  
9        examination of the filing. A copy of the transcript  
10       will be available on our website at  
11       [www.insurance.pa.gov](http://www.insurance.pa.gov).

12                    As to the format of today's hearing, I  
13       would encourage you to pick up an agenda. It will  
14       be a helpful guide as we proceed throughout the day.  
15       We will begin with presentations from the  
16       applicants, Blue Cross of Northeastern Pennsylvania  
17       and Highmark. And then from their economist, Dr.  
18       Cory Capps of Bates and White. This will be  
19       followed by presentations from the Department's  
20       consultants, the Blackstone Group, as well as  
21       Compass Lexecon.

22                    The public portion comment of the  
23       hearing will then begin with presentations from  
24       those who have registered to speak. If you have not  
25       preregistered and wish to speak, please see Chris

1 Bybee at the registration table so that you may be  
2 placed on the speaker's list.

3 I'd like to take a few moments now to  
4 go over the procedures and ground rules for today.  
5 I will be calling each commenter to the front table  
6 when it is that individual's turn to speak. At that  
7 time I will also ask that the next speaker move to  
8 the reserved seating behind the presentation table  
9 so that you can be on deck as the next presentation.  
10 When speaking please indicate if you are speaking on  
11 your own behalf. If you are speaking in a  
12 representative capacity, please identify your role  
13 and the relationship to the represented  
14 organization. Your remarks should be specific and  
15 related to the Form A filing that is before the  
16 department. In order to make sure that all the  
17 presenters have the opportunity to comment today,  
18 please limit your presentations to about ten  
19 minutes.

20 Because of the informal nature of  
21 today's proceeding there will be no sworn testimony.  
22 Further, cross-examination or interrogation of  
23 speakers will not be permitted. However, you may  
24 pose questions to Highmark or Blue Cross of  
25 Northeastern Pennsylvania during your presentation.

1           Please note that today's hearing is  
2   also being web streamed live, so when you speak  
3   please make sure you speak directly into the  
4   microphone. The web stream will be available on the  
5   Department's website after today's hearing.

6           Also following today's hearing the  
7   Department will require written responses to the  
8   questions raised by the Department and the public  
9   during the hearing, and we will make those responses  
10   available on our website.

11          And finally, if time permits the  
12   Department will allow speakers to present additional  
13   comments at the end of this session, or at the end  
14   of the evening session. Thank you.

15          COMMISSIONER CONSEDINE: Thank you,  
16   Yen. Thank you, Kim.

17          As indicated previously, we will be  
18   starting off with presentations by BCNEPA, Highmark,  
19   and Highmark's economist. We will also then from  
20   the panel be asking questions of each one of those  
21   presentations. Following that we will have a short  
22   presentation by the Department's financial adviser,  
23   the Blackstone Group, and then from Compass Lexecon,  
24   the Department's economist. Finally, we will  
25   provide the public with an opportunity to comment on

1 the filing and to ask questions.

2 So with all of that as prelude and  
3 background, we will start off with Denise Cesare,  
4 President and CEO of BCNEPA.

5 Ms. Cesare, would you like to approach  
6 with your team.

7 MS. CESARE: All right. Thank you.  
8 Are our mikes on?

9 COMMISSIONER CONSEDINE: Just hit the  
10 button there.

11 MS. CESARE: Okay. Better? All  
12 right. Thank you.

13 Thank you, Commissioner Consedine,  
14 and thank you to you and your entire department for  
15 holding this hearing and offering the public this  
16 opportunity to provide input into this important  
17 transaction.

18 I am Denise Cesare. I am President  
19 and Chief Executive Officer of Blue Cross of  
20 Northeastern Pennsylvania. I have served in that  
21 role since 1999, and have proudly worked with this  
22 organization for nearly 35 years. With me today is  
23 John Moses, Chairman of the Board of Directors of  
24 Blue Cross of Northeastern Pennsylvania.

25 I am pleased to be here to discuss the

1 proposed merger between Blue Cross of Northeastern  
2 Pennsylvania and Highmark. In my remarks today I  
3 will discuss why BCNEPA decided to pursue this  
4 transaction, the process we used, why we chose  
5 Highmark, and how this merger will benefit the  
6 people and communities of Northeastern and North  
7 Central Pennsylvania.

8 First, some background. Seventy-six  
9 years ago with the country and the region still  
10 struggling to recover from the Great Depression,  
11 Blue Cross of Northeastern Pennsylvania began  
12 providing health care coverage jointly with  
13 Highmark, which was known to the public then as  
14 Pennsylvania Blue Shield, to the area's workers and  
15 their families, many being miners, factory workers,  
16 construction workers, and teachers. Since that time  
17 as an independent licensee of the Blue Cross Blue  
18 Shield Association we have pursued our mission to  
19 provide integrated services and products that  
20 improve the quality, the accessibility, and  
21 affordability of health care for area residents. We  
22 have grown to serve more than 300,000 enrolled  
23 members, plus more than 200,000 members of other  
24 group plans who reside across our 13 county service  
25 area, with annual revenues of \$1.7 billion in 2013,

1 and approximately 750 employees.

2 We remain dedicated to creating and  
3 delivering innovative health and wellness solutions,  
4 providing employers and individuals with a wide  
5 choice of affordable health insurance coverage  
6 options, a large network of quality health care  
7 providers, and effective customer service, all with  
8 the ultimate goal of improving the health of the  
9 people living in Northeastern and North Central  
10 Pennsylvania.

11 Like all health plans here we have  
12 been faced with dramatic changes in the health care  
13 environment. As I will explain, these changes  
14 create serious concerns about the ability of  
15 independent plans of our size to remain viable and  
16 competitive in the long term. We needed to find a  
17 solution that would preserve a strong new option and  
18 robust products and services for our customers, and  
19 would preserve jobs and economic impact in our  
20 region. And we needed to act now while our  
21 membership base and capital position remains strong.

22 BCNEP has always prided itself by  
23 being at the forefront of health care innovation,  
24 management and financing. We have historically been  
25 proactive in creating providing new pay and



1 reimbursement models, and partnerships, developed  
2 state of the art consumer interface and tools,  
3 improved customer service capabilities, and  
4 implemented programs to better the health status of  
5 our population. As you are aware, the health care  
6 landscape, particularly in Northeastern and North  
7 Central Pennsylvania, has changed dramatically  
8 within just the last several years. We have seen an  
9 enormous transformation of the delivery system  
10 within our region, and expect to see continued and  
11 substantial changes in the future.

12 Industry and marketplace changes  
13 accelerated by the federal Affordable Care Act are  
14 also transforming the national and regional health  
15 care landscapes, posing serious challenges to health  
16 plans our size concerning long term viability,  
17 sustainability, and the ability to serve customers  
18 and providers with the same high level of  
19 performance they have come to expect and deserve.

20 As a small insurer we are confronted  
21 with numerous challenges as an independent entity.  
22 I'd like to highlight seven in total.

23 One, our inability to sustain our  
24 mission. Over the past decade BCNEPA has attempted  
25 to attain a 1 to 2 percent return on revenue in

1       order to generate surplus for capital improvements  
2       and increasing underwriting risk. Through 2011 and  
3       2012 we generated a small gain from operations of  
4       approximately 1.2 percent. In 2013 our operating  
5       gain was reduced to .5 percent as a result of new  
6       emerging market pressures, and we are now projecting  
7       negative returns over the coming years.

8               An independent study by a nationally  
9       recognized consultant engaged by BCNEPA in 2011  
10      concluded that several trends will continue to  
11      negatively impact the financial strength needed by  
12      BCNEPA as an independent entity in order to fulfill  
13      its mission at a high level. Based on our latest  
14      estimates, BCNEPA's two main insurance entities,  
15      First Priority Life Insurance Company, and First  
16      Priority Health, are projected to incur annual  
17      losses from operations in 2014 through 2017.

18              So what is causing the significant  
19      decline in financial performance you may ask?  
20      First, based on the latest estimates, medical care  
21      costs are expected to continue to rise by mid to  
22      high single digits into the future. A higher rate  
23      of increase than observed over the past few years.  
24      This is due primarily to advances technology, the  
25      aging of the population, increased pharmaceutical

1 costs, new taxes, and compliances with health care  
2 reform.

3 Second, employers are increasingly  
4 moving to self-funded plans where the employer  
5 assumes the risk of health care claims and pays a  
6 health plan or a third party administrator an  
7 administrative fee versus a full premium. This  
8 movement is driven in part by the implementation of  
9 the Affordable Care Act which created incentives for  
10 employers to reduce tax liability and avoid benefit  
11 mandates.

12 Smaller health plans like BCNEPA  
13 generally have higher administrative costs than  
14 larger health plans since they spread their costs  
15 and investments across a much smaller membership  
16 base. These smaller health plans must either sell  
17 their administrative services at a loss or risk  
18 losing larger customers, which further exacerbates  
19 the problem by decreasing their already smaller  
20 membership base.

21 In addition, the Affordable Care Act's  
22 Federally Facilitated Marketplace and premiums  
23 subsidies will result in a larger share of members  
24 purchasing individual as opposed to group coverage.  
25 As insurer of last resort, BCNEPA subsidized losses

1 of approximately \$94 million over the five year  
2 period 2008-2012 on its individual community  
3 commitment products. Our projections are that risks  
4 of individual products under the ACA will be similar  
5 to or even exceed those of these community  
6 commitment products.

7 Third, other ACA requirements and  
8 impacts such as the law's mandated benefits, medical  
9 loss ratio requirements, rate increase limitations,  
10 and new taxes and fees will exert even greater  
11 pressure on BCNEPA's ability to generate even small  
12 operating margins.

13 And finally, provider consolidation  
14 throughout BCNEPA's service area has increased  
15 provider cost pressures, placing additional strain  
16 on BCNEPA's operating results. Specifically,  
17 Geisinger Health System, an integrated health  
18 delivery system with its own health plan, Community  
19 Health Systems, the largest for profit hospital  
20 chain in the community, and Susquehanna Health in  
21 Williamsport have all recently acquired hospitals  
22 that were formally independent.

23 Number two, our heightened exposure to  
24 risk. In comparison to its competitors BCNEPA's  
25 Blue-branded service area is limited to 13 counties,

1       thus constraining its ability to grow its membership  
2       base in an increasingly competitive market, and  
3       hampering its ability to withstand the membership  
4       mix risks associated with the ACA. This becomes a  
5       disadvantage in serving fully insured members by  
6       limiting BCNEPA's ability to spread the risk of  
7       large claims and higher risk members over a larger  
8       base in order to lower costs for all participants.  
9       As more individuals and small groups begin  
10      purchasing coverage from the health exchanges,  
11      including those who did not have coverage  
12      before, the potential for higher utilization and  
13      larger claims will further increase risks. We have  
14      already seen this risk materialize in the short time  
15      that the public exchange has been operational.

16                      And for example, Aetna, a national  
17      insurer competing in BCNEPA market, can spread risk  
18      across over 18 million medical subscribers compared  
19      to BCNEPA's total enrolled base of slightly more  
20      than 300,000, of which only 169,000 are fully  
21      insured members.

22                      Number three, the need for significant  
23      capital for investment. Given the resource  
24      constraints typical of a small plan such as BCNEPA,  
25      certain investments in and upgrades to business

1 systems and models have been deferred over the  
2 years. Based on a study by an independent expert,  
3 BCNEPA would need to continue investing significant  
4 capital over the next several years to: One, comply  
5 with the ACA, and compete in the post-ACA  
6 marketplace; two, transform to accountable care by  
7 implementing new business models with providers  
8 based on aligned economic incentives to manage unit  
9 care costs and increase value to the consumer;  
10 three, enhance the consumer experience for services,  
11 tools, and technologies to allow customers to  
12 compare provider costs and quality information,  
13 provide realtime access to information and feedback,  
14 and support health and wellness activities; and  
15 four, maintain and upgrade IT systems, including  
16 investment in IT systems for the state of the art  
17 enrollment and billing, claims processing, and  
18 consumer connectivity, clinical management  
19 infrastructure, and for electronic medical records  
20 systems for primary care physicians.

21 The consultant ultimately recommended  
22 that in order for BCNEPA to remain strategically and  
23 financially viable over the premium to long term is  
24 five plus year, BCNEPA should, one, seek a partner  
25 or partners to provide between \$40 and \$150 million

1 in capital support to the organization, and, two,  
2 seek to diversify in order to expand its geographic  
3 footprint outside of its 13 county market area, and  
4 to acquire capabilities to profitably participate in  
5 governmental product lines.

6 Number four, access to capital.

7 BCNEPA is currently in a reasonably strong financial  
8 position, with a statutory surplus of \$348 million,  
9 and health risk based capital safely above the  
10 required minimums. Health risk based capital is a  
11 key indicator used by the industry and by regulators  
12 to monitor a health plan's financial condition.  
13 However, these point in time indicators do not take  
14 into account the magnitude of significant  
15 prospective risks, uncertainties and capital  
16 requirements that BCNEPA would face in the future as  
17 an independent entity. Together these factors will  
18 put significant pressure on the organization's  
19 surplus and financial condition over the next five  
20 years.

21 This financial strength is  
22 exasperated -- exacerbated, I'm sorry, by BCNEPA's  
23 small size. BCNEPA's surplus actual dollar position  
24 is small relative to its key competitors, which  
25 maintain surplus levels exceeding \$1 billion, and

1        have significantly more financial wherewithal to  
2        absorb financial shock. Small not for profit health  
3        plans such as BCNEPA are at a distinct disadvantage  
4        vis-a-vis larger plans, both for profit and  
5        non-profit, in terms of being able to address  
6        further headwinds given the limited access to  
7        capital markets to raise funds for necessary  
8        technological and compliance upgrades, as well as  
9        business diversification initiatives. As a result  
10       such plans tend to rely on purely organic means to  
11       bolster surplus and invest in diversification  
12       strategies, such as health underwriters margins,  
13       investment income, and appreciation of financial  
14       assets.

15                        This is a tenuous formula for future  
16       success. As outlined earlier in the post-ACA  
17       environment it will be very difficult for small  
18       plans to generate underwriting margins. Furthermore,  
19       in today's volatile low interest rate financial  
20       environment bonds, the asset class in which  
21       insurance companies are required by regulation to  
22       invest a majority of their assets, have the  
23       potential to generate negative real returns when  
24       adjusted for inflation for the foreseeable future.  
25       And this is at a time when equities are highly



1 subject to market risks and vagaries. As a result,  
2 BCNEPA's surplus position has been determined to be  
3 insufficient to enable it to compete effectively in  
4 the marketplace over the mid to long term as an  
5 independent entity. As noted previously, a  
6 strategic assessment completed by a national  
7 consulting firm in 2011 concluded that BCNEPA would  
8 need upwards of \$150 million in additional capital  
9 for it to compete effectively in the post-ACA  
10 environment.

11 Five, capital strength of competitors.  
12 Competition from well-capitalized competitors will  
13 put further stress on BCNEPA's financial resources.  
14 National and regional competitors are using their  
15 financial strength to position themselves favorably  
16 in the new environment. For example, Aetna  
17 purchased Coventry Healthcare for \$5.8 billion in  
18 2012 primarily to expand its government business.  
19 It also invested money and energy into developing  
20 accountable care organizations. United Healthcare,  
21 which is gaining share in the BCNEPA service area,  
22 spent \$1.45 billion to purchase regional providers  
23 in 2011 alone. Humana is investing in integrated  
24 delivery systems, and recently acquired Metropolitan  
25 Health Networks for \$500 million, while Cigna

1       acquired HealthSpring for \$3.9 billion to boost  
2       Medicare and Medicaid products.

3               Here in our service area, Geisinger  
4       Health Plan is affiliated with the Geisinger Health  
5       System, which maintains a fund balance in excess of  
6       2.5 billion as of June 30, 2014. As I mentioned  
7       earlier, Geisinger continues to expand its provider  
8       presence through provider affiliations and  
9       acquisitions.

10              Our ability to successfully deliver  
11       our mission in the future will depend on our ability  
12       to compete with these well-capitalized local and  
13       national players in both the commercial and  
14       government market segments.

15              Number six, scale limitations. Larger  
16       insurers have scale which permit them to operate  
17       more efficiently and spread both risk and  
18       administrative cost over a larger population. The  
19       new health care environment is heavily scale  
20       dependent. For example, group membership is  
21       expected to continue to migrate toward self-funded  
22       or administrative services only arrangements, where  
23       the risk stays with the employer, and operating  
24       margins for the health plan is based not on managing  
25       risk, but on managing administrative costs. This

1 market segment represents almost one-third of  
2 BCNEPA's controllable membership, and continues to  
3 grow. As noted earlier, BCNEPA must make  
4 significant investment in its service technology and  
5 investments in order to remain competitive as an  
6 independent entity. Spreading these costs over a  
7 much smaller membership base than our competitors  
8 has a large impact on our administrative costs per  
9 member. Likewise, the growth of Blue Card  
10 membership in the region, that is, subscribers  
11 living in the BCNEPA service area but carrying a  
12 Blue Card other than BCNEPA's, increases the  
13 importance of low administrative costs. Further  
14 insurers with greater scale can more readily respond  
15 to the medical loss ratio limitations and new taxes  
16 and fees under the Affordable Care Act.

17 Administrative costs represent 10 to  
18 12 percent of overall health care premiums. So it  
19 is important to be as efficient as possible. As a  
20 smaller insurer, BCNEPA must find ways to increase  
21 scale and reduce its administrative costs per member  
22 so it can continue to offer affordable products that  
23 meet the needs of consumers.

24 And finally number seven, our ability  
25 to participate in broader geographic market

1 opportunities. BCNEPA must have a larger footprint  
2 and greater scale to compete for a chance to serve  
3 the growing number of individuals covered in both  
4 commercial and government business, including  
5 programs like Medicaid, Medicare, the Pennsylvania  
6 Employee Benefit Trust Fund, and the new public  
7 exchange products. BCNEPA estimates that  
8 approximately 45 to 50 percent of the BCNEPA's  
9 regions 1.2 million residents will be covered by  
10 Medicare, Medicaid, or through the public health  
11 insurance exchanges by 2016. BCNEPA does not have  
12 the size, scale, or footprint to participate  
13 independently in managed Medicaid, or managed  
14 Medicare programs. Start up costs and capital  
15 reserves to enter into markets such as Medicare and  
16 Medicaid would be significant and would take years  
17 to implement.

18 Our current market and financial  
19 position is strong, but we knew that the long term  
20 outlook as an independent entity was not favorable.  
21 In fact, the analysis done by our external national  
22 expert concluded that future environmental and  
23 business conditions were going to adversely affect  
24 our financial position and threaten long term  
25 sustainability. We needed a solution that would

1       preserve a strong Blue option and robust products  
2       and services for consumers, and would preserve jobs  
3       for our local economy. And we needed to act while  
4       our position was strong to deliver the best results.  
5       After much deliberation regarding alternative paths,  
6       BCNEPA's management and Board concluded now was the  
7       time to seek a strategic relationship.

8                       We hold the strong Blue brand in our  
9       13 county region, a significant enrolled membership  
10      base of approximately 300,000, and an adequate  
11      capital position with revenues of 1.7 billion in  
12      2013, and statutory surplus of approximately 341  
13      million. We have a strong workforce, long term  
14      positive relationships with regional stakeholders,  
15      including customers, providers, and community  
16      leaders, and have developed innovative programs  
17      designed to meet local health care needs, such as  
18      wellness and disease management programs. From a  
19      timing perspective, BCNEPA decided that it would be  
20      better to seek out a strategic relationship while  
21      the organization remains relatively strong, versus  
22      waiting for our position to weaken over time due to  
23      environmental and competitive pressures. The  
24      interest expressed by multiple potential candidates  
25      confirmed our view of BCNEPA as an attractive

1 candidate for affiliation or merger.

2 So the selection process. BCNEPA  
3 engaged in a rigorous process to explore its  
4 options for a strategic relationship and to select a  
5 transaction partner that best positions the company  
6 to continue serving the long term needs of our  
7 customers and the community.

8 This structured deliberative process  
9 started in the fall of 2012. The company began by  
10 identifying the goals for a transaction, and  
11 developing a process and criteria for assessing  
12 prospective candidates for affiliation or merger.  
13 We established a structured project team that  
14 included the BCNEPA Board of Directors, executive  
15 management, and other key personnel.

16 Our goals were as follows: One,  
17 insure high quality, affordable products and  
18 services were offered to the consumers within the  
19 Northeastern and North Central Pennsylvania. Two,  
20 retain jobs within the Northeastern and North  
21 Central Pennsylvania markets. Three, create a  
22 charitable foundation to serve the needs of our  
23 community. And four, retain local representation  
24 and governance for a specified period of time.

25 The company retained experts to

1 support our decision making, including Cain  
2 Brothers, an investment banking firm with specific  
3 experience and expertise in the health care  
4 industry, and legal counsel, Cozen and O'Connor, a  
5 top national firm with attorneys skilled in both  
6 health care and insurance law, and complex business  
7 transactions.

8 Our team developed and circulated a  
9 comprehensive request for proposal to prospective  
10 candidates. Three candidates submitted proposals in  
11 response. Each proposal was evaluated for  
12 responsiveness to BCNEPA's goals. In addition to  
13 other important functions, a dedicated ad hoc  
14 committee of the Board worked through Cain Brothers  
15 to request additional information and to respond to  
16 candidate questions.

17 We held face to face meetings with  
18 each candidate which allowed the candidates to  
19 present their proposals and respond to questions  
20 from the BCNEPA Board. The BCNEPA Board of  
21 Directors held a series of meetings to consider each  
22 candidate's proposal, using BCNEPA's specified  
23 criteria as a basis, and to select one candidate to  
24 continue exclusive negotiations. Throughout the  
25 process the BCNEPA Board of Directors and its

1 dedicated ad hoc committee held more than 40  
2 meetings, demonstrating the care and diligence  
3 devoted to the process, and the decision.

4 After this careful review and  
5 consideration the BCNEPA Board of Directors  
6 concluded that a merger with Highmark is the best --  
7 is in the best interests of our customers, our  
8 employees, and the community. Highmark was chosen  
9 based on the strength of its proposal, and its  
10 responsiveness to our goals and business objectives.  
11 A merger with Highmark will continue BCNEPA's  
12 long-standing mission as part of the Pennsylvania  
13 non-profit community based and community minded  
14 company. The merged company will be strongly  
15 positioned to continue providing the affordable,  
16 high quality health care options and excellent  
17 customer service that BCNEPA customers and providers  
18 have come to expect, all under an enhanced program.

19 It is a natural extension of the  
20 company's long term relationship. BCNEPA and  
21 Highmark have worked together for more than 75 years  
22 to jointly provide Blue Cross and Blue Shield  
23 products, and to serve the needs of customers across  
24 Northeastern and North Central Pennsylvania. In  
25 addition, BCNEPA and Highmark already jointly own



1 through a joint venture two significant BCNEPA  
2 health plans, First Priority Life Insurance Company,  
3 and First Priority Health. BCNEPA also utilizes  
4 certain Highmark systems and IT infrastructure to  
5 support its operations. As a result, this merger  
6 can be implemented with minimal disruption to  
7 customers and the health care providers with whom  
8 BCNEPA currently works.

9 Merging with Highmark, a much larger  
10 company with significant capital and enhanced  
11 capabilities, provides the resources needed to have  
12 a wide array of products and services for consumers,  
13 develop programs and tools to support the  
14 transformation to accountable care, including  
15 patient-centered medical homes, and accountable care  
16 organizations, and make significant IT investments  
17 and expertise -- make available, I'm sorry,  
18 significant IT investment and expertise.

19 It is also important to note that  
20 Highmark has a proven track record of integrating  
21 organizations with mutual success, including Blue  
22 health plans in West Virginia and Delaware.

23 Finally, and this is extremely  
24 important to BCNEPA and the communities it serves,  
25 we selected Highmark because it produced the

1       proposal that most closely matched the goals our  
2       Board established.

3               Local presence and economic impact.  
4       The merger maintains regional operations and  
5       includes a commitment to substantial continued  
6       employment in a region for at least four years.  
7       Highmark also commits to explore opportunities to  
8       grow in employment in the area.

9               Employee protection. In addition to  
10      the overall job commitments, Highmark makes a  
11      commitment to existing employees for continued  
12      employment, or a severance in the event they are  
13      displaced.

14              Local input. Our agreement with  
15      Highmark creates a local advisory board that will  
16      have a voice in matters related to the transition  
17      and ongoing operations in BCNEPA service areas. It  
18      also provides for additional local representation on  
19      the Highmark Board of Directors with four additional  
20      Board members from the region.

21              Financial commitments to the  
22      community. The agreement allows BCNEPA to provide  
23      significant funding up to \$100 million to benefit  
24      the region, and to create a new charitable entity  
25      that will support health and wellness activities

1 across the region into the future.

2 So now the expected benefits of the  
3 merger from BCNEPA's perspective. The BCNEPA  
4 Highmark merger will benefit consumers, our provider  
5 partners, the community and the companies.

6 Consumers will see enhanced product offerings and  
7 more innovative tools and technology that improve  
8 care quality and patient health and wellness. They  
9 will continue to have the confidence that comes from  
10 the availability of products offered under the Blue  
11 brand. Consumers will also benefit from the  
12 positive impact of lower administrative costs on the  
13 affordability of health coverage.

14 Consumers and providers alike will  
15 gain from the the development of new delivery models  
16 to support the transition to accountable care in  
17 which payment will be increasingly based on value,  
18 rather than the service delivered. Providers will  
19 also benefit from the streamlined relationship that  
20 this merger should produce, which can reduce their  
21 administrative burdens.

22 Thanks to the commitments that  
23 Highmark is making as part of this agreement, our  
24 community in Northeastern and North Central  
25 Pennsylvania will maintain the economic benefits of

1 continuing to have the presence of a major health  
2 care employer in the region, as well as the health  
3 benefits of the investment of up to \$100 million in  
4 community health and wellness endeavors in our  
5 region.

6 Finally, through this merger the  
7 region will continue to benefit from an insurance  
8 company with a nonprofit model and similar corporate  
9 mix. The merged company will gain from expanded  
10 access to capital for investments necessary to  
11 continue to fulfill the nonprofit model, and a  
12 similar corporate mission well into the future,  
13 while avoiding duplicative capital investment that  
14 both companies would have been required to make had  
15 they remained independent.

16 The merger -- the merger also presents  
17 new and expanded opportunities in both the community  
18 and government markets due to a broader geographic  
19 footprint that moves us beyond our -- I'm sorry,  
20 moves us beyond our current 13 county service area,  
21 to connect with Highmark markets in Western and  
22 Central Pennsylvania, and the Lehigh Valley.

23 In summary, I've explained the reasons  
24 why changes in the health care environment created  
25 the need for us to act. Our long term

1 sustainability as an independent health plan, and  
2 our ability to continue to serve our customers and  
3 providers with the same high level of performance  
4 they have come to expect was in question. I've  
5 discussed why we believe now is the right time to  
6 act. And I've presented why Highmark is the right  
7 choice.

8 This transaction will enable the  
9 merged company to offer innovative and enhanced  
10 health care products and services to our customers,  
11 improve the efficiency and effectiveness of the  
12 services we offer, deliver jobs, preserve jobs and  
13 related economic benefits in our region, retain  
14 strong health plan competition within our  
15 marketplace, and maintain the presence of a not for  
16 profit Pennsylvania based Blue Cross and Blue Shield  
17 organization that is committed to the health and  
18 economic well-being of this area.

19 For these reasons we request the  
20 Department approve this merger.

21 Once again, thank you for this  
22 opportunity to discuss BCNEPA's reasons for the  
23 merger, and why it is good for Northeastern and  
24 North Central Pennsylvania, including our individual  
25 subscribers, employer groups, providers, the

1 communities in which we operate, and the people in  
2 our region. Thank you.

3 COMMISSIONER CONSEDINE: Thank you  
4 very much, Ms. Cesare. I think before we ask you  
5 some questions, and certainly we do have some  
6 questions, I don't know if it would be helpful, Mr.  
7 Moses, if you have any additional comments or  
8 questions, since you are present, or a statement  
9 that you would like to make, and then we can just  
10 sort of ask questions as a group.

11 MR. MOSES: Thank you very much.

12 Mr. Commissioner, Ms. Rankin, Ms.  
13 Lucas, first of all, let me thank you --

14 COMMISSIONER CONSEDINE: Can you make  
15 sure your mike is on there, John, please.

16 MR. MOSES: Can I be heard now?

17 COMMISSIONER CONSEDINE: I can hear  
18 you. I don't know if the rest of room can.

19 MR. MOSES: Commissioner, and Ms.  
20 Rankin, and Ms. Lucas, first of all, let me thank  
21 you, Commissioner Consedine, for your outstanding  
22 leadership in overseeing the review process and  
23 holding this public hearing which gives the people  
24 of our region an opportunity to have their views  
25 expressed. My name is John Moses. I have served as

1 Chairman of the Board of Blue Cross of Northeastern  
2 Pennsylvania since 1997. In that role I've led the  
3 BCNEPA Board, and the executive leadership team in  
4 our lengthy and rigorous process to explore options  
5 for a strategic relationship and to select a merger  
6 or other partner that best positions our company to  
7 continue serving the long term needs of our  
8 customers, and communities across Northeastern and  
9 North Central Pennsylvania.

10 I am proud to share with you the  
11 details of one of the most important aspects of this  
12 merger transaction, an unprecedented financial  
13 commitment to charitable endeavors supporting the  
14 health and wellness of the people of our region. As  
15 I will explain, this charitable commitment will  
16 produce a substantial and lasting impact on health  
17 across Northeastern and North Central Pennsylvania,  
18 and will provide an avenue for job creation as well.

19 Let me discuss a brief history of  
20 BCNEPA and its community support. A community  
21 commitment is vital to the success of this  
22 transaction, and was a condition insisted upon by  
23 BCNEPA in our negotiations, because of BCNEPA's  
24 legacy of community commitment since its creation in  
25 1938. For example, BCNEPA created the Blue Ribbon

1 Foundation in 2002 to help community based  
2 nonprofits provide health education and prevention  
3 programs, and improve access to care for residents  
4 of our 13 county service area. In the dozen years  
5 since the foundation has awarded more than  
6 \$10 million in grant funding to nearly two regional  
7 not for profits to meet the health and wellness  
8 needs of 195,000 at risk individuals.

9 It has been a community leader in  
10 promoting innovative partnerships and supporting  
11 solutions that produce measurable health and  
12 wellness outcome.

13 BCNEPA also was a leader in helping to  
14 establish the Commonwealth Medical College to  
15 address the factors that have been driving the out  
16 migration of health care from this region. An  
17 estimated 1.6 billion -- \$1.6 billion in care was  
18 leaving our region each year due in part to factors  
19 such as aging hospital facilities, a shortage of  
20 physicians, and the perception that quality was  
21 better elsewhere. Keeping health care local not  
22 only recaptures the economic impact of these dollars  
23 for our providers and our community, it also eases  
24 the burden on patients and their families who can  
25 now stay close to home.



1 BCNEPA's significant financial and  
2 strategic support for the Commonwealth Medical  
3 College combined with the support of the  
4 Commonwealth and other community leaders helped  
5 establish the school and provide a financially  
6 safety net during its formative years. Today the  
7 Commonwealth Medical College is fully accredited,  
8 both by LCMA and the Middle States, offering  
9 community based medical education, with regional  
10 campuses in Scranton, Wilkes-Barre and Williamsport.  
11 This past May the Medical College graduated its  
12 fifth class of Master of Biomedical Science  
13 students, and its second class of medical doctors,  
14 many of whom will stay and practice in Northeast and  
15 North Central Pennsylvania.

16 Our final example of BCNEPA's  
17 commitment to community endeavors is our  
18 organizations's long-standing support for the United  
19 Way. In the past ten years alone BCNEPA's corporate  
20 contributions to the United Ways across our 13  
21 counties, the support of programs, and addressing  
22 each community's most pressing social welfare needs  
23 have totaled \$1.5 million.

24 Now, let me address the issue of  
25 community support as a goal. It was a priority for

1 BCNEPA's Board to ensure the continuation of this  
2 legacy as we considered prospective candidates with  
3 which to affiliate or merge. In addition to our  
4 goals of preserving jobs and economic impact on the  
5 region, maintaining local impact into the  
6 organizations, decision making, and enhancing our  
7 ability to improve products and services, and  
8 control the costs for local consumers, we also  
9 sought a commitment to invest significant resources  
10 into a charitable organization or organizations that  
11 would continue to serve the needs of our community.  
12 The criterion was particularly important in any  
13 transaction that's resulted in merger of BCNEPA into  
14 another organization.

15 Highmark, which shares BCNEPA's long  
16 history as a nonprofit community minded  
17 organization, recognized the importance of such  
18 charitable support to this community, and to its  
19 future success in this region. We successfully  
20 worked with Highmark to include two very important  
21 provisions in our merger agreement.

22 First, the agreement provides for up  
23 to \$100 million in funds to be set aside to benefit  
24 the people and communities of our region.

25 Second, it allows for the transfer of

1 stock in BCNEPA's subsidiary, AllOne Health  
2 Resources Corporation, a company not included in the  
3 merger, to a charitable organization to benefit the  
4 local community.

5 Commissioner, with your permission  
6 I'll refer to that entity as AllOne from this point  
7 on. Let me talk about AllOne. AllOne is a for  
8 profit BCNEPA wholly owned subsidiary that currently  
9 has its corporate offices in Woburn, Massachusetts.  
10 It provides coordinated medical, occupational, and  
11 behavioral health services to global employers to  
12 keep their workers healthy and productive, and to  
13 mitigate rising health care costs.

14 AllOne is a valuable and growing  
15 company governed by a board comprised of community  
16 leaders from right here in Northeastern and North  
17 Central Pennsylvania. It was determined during our  
18 negotiations with Highmark that AllOne's core  
19 offerings do not align with Highmark's ancillary  
20 products strategy. As a result AllOne will not be  
21 part of the merger transaction along with BCNEPA and  
22 its other affiliates.

23 This presented BCNEPA with two options  
24 for dealing with this valuable asset. One, either  
25 sell AllOne and dedicate the proceeds to a

1 charitable use, or to retain the company under local  
2 governance for the ongoing benefit of our community.  
3 After considering each option very thoroughly,  
4 BCNEPA's board determined that it was in the best  
5 interests of this community to retain ownership of  
6 the company rather than selling it now for a price  
7 which may not adequately represent its potential  
8 value.

9 Let me discuss how retaining it is a  
10 value, how AllOne will benefit the community. It  
11 allows a valuable BCNEPA asset to remain and grow  
12 under local control. AllOne will immediately become  
13 domiciled in Pennsylvania, and become a Pennsylvania  
14 corporation immediately before closing. Our  
15 analysis indicates that the company is poised for  
16 future growth and rising value, particularly if  
17 targeted capital investments are made.

18 The company's increasing value will  
19 accrue to a local charitable organization that holds  
20 its stock, and as it grows we will look to create as  
21 many possible new jobs here in Northeastern  
22 Pennsylvania without jeopardizing the financial  
23 viability of the company.

24 Let me now discuss the structure of  
25 the new charitable organization. With the decision

1       made to retain AllOne it became necessary to  
2       structure an organization or organizations that  
3       could effectively manage all of the assets, the  
4       funding, as well as the AllOne stock being set aside  
5       for charitable purposes under the merger agreement.  
6       It was determined that these assets would need to be  
7       directed into two entities, a private foundation  
8       formed by restructuring and renaming BCNEPA's  
9       existing foundation, Blue Ribbon Foundation of Blue  
10      Cross of Northeastern Pennsylvania, and to a newly  
11      created public charity. Let me add that was after  
12      several discussions and deliberations by our Board.

13               Let me directly address the issue of  
14      why two entities. Under the Internal Revenue Code a  
15      nonprofit corporation that is exempt from federal  
16      income tax as a private foundation would be subject  
17      to significant excess business holdings -- business  
18      holdings penalties if it held more than a permitted  
19      percentage of stock in a for profit company. The  
20      existing Blue Ribbon Foundation, and its successor  
21      private foundation, therefore, are unable to hold  
22      AllOne's stock. A nonprofit classified as a public  
23      charity, however, is permitted to hold the stock  
24      without triggering these severe penalties. Thus a  
25      Pennsylvania nonprofit will be created and will

1 request the Internal Revenue Service to classify it  
2 as a public charity.

3 Let me stress, that although two legal  
4 entities are needed, they will be structured to have  
5 some shared board members for leadership continuity,  
6 and will also share staff and location for maximum  
7 operating efficiency.

8 Let me now address the private  
9 foundation which will be called the AllOne  
10 Foundation. As mentioned, the private foundation  
11 will be the successor to BCNEPA's existing Blue  
12 Ribbon Foundation. Currently the sole member of the  
13 Blue Ribbon Foundation is BCNEPA, which will merge  
14 into Highmark when this transaction closes after  
15 your review. Prior to closing, therefore, the  
16 foundation's Articles of Incorporation and By-Laws  
17 will be changed to restructure the entity into a  
18 non-member, nonprofit corporation, no longer  
19 affiliated with BCNEPA, or the Blue Cross Blue  
20 Shield Association. The name of the foundation will  
21 change as well to AllOne Foundation, in order to  
22 reflect in that it is now an independent  
23 organization. The foundation will maintain its  
24 health and wellness mission, will accept new dollars  
25 provided for in the merger agreement, and will

1       continue to make grants to nonprofit organizations  
2       throughout our region.

3               The Board of Directors includes some  
4       current Blue Ribbon Foundation Board members, and  
5       the current BCNEPA Board members, excluding the  
6       ex-officio member, all of whom represent communities  
7       across our current 13 counties. As a private  
8       foundation it will not conduct any fundraising  
9       activities.

10              Public charity. A newly created  
11       non-stock, nonprofit, non-member corporation will be  
12       formed and we will request the Internal Revenue  
13       Service treatment as a public charity, the  
14       outstanding capital stock of AllOne, a wholly owned  
15       subsidiary of the public charity. It is not  
16       anticipated that the public charity, which will be  
17       named AllOne Charities, will own equity interests in  
18       any other corporation.

19              Like the private foundation, the  
20       public charity will make grants to nonprofit  
21       organizations to benefit the health and welfare of  
22       the people of the community. As a public charity it  
23       will conduct fundraising activities to further its  
24       mission, with funds expected to be raised from  
25       individuals, businesses, corporations, and

1 individual donors, as well as grants secured from  
2 governmental entities and other exempt  
3 organizations.

4 The Board of Directors of the public  
5 charity will be broadly representative of the  
6 community and committed to working diligently to  
7 enhance the public charity's mission. The Board  
8 will include current BCNEPA Board members, excluding  
9 the ex-officio member, as a minority group of the  
10 Board, with the majority of the Board to be  
11 community representatives drawn from the 13 counties  
12 of Northeastern and North Central Pennsylvania, and  
13 from a broad spectrum of backgrounds and  
14 professionals, including business leaders, health  
15 care professionals, educators, members of a  
16 religious community, individuals from community  
17 nonprofit organizations, and others interested in  
18 improving the health and welfare of the people of  
19 our region.

20 It is important to note that no member  
21 of the Board of Directors of the private foundation  
22 and no member of the Board of Directors of a public  
23 charity will be compensated for serving as a  
24 director.

25 Let me discuss for a moment, if I



1       could, Mr. Commissioner, the common mission and the  
2       complementary roles of the two entities as  
3       described. The private foundation and the public  
4       charity will share a mission and a vision. Let me  
5       share with you now what the mission is: To make a  
6       real and substantive impact on the health and  
7       welfare of the people of Northeastern and North  
8       Central Pennsylvania by improving access,  
9       affordability, and quality of health care.

10               What is our vision? Our vision is to  
11       work either independently, or in collaboration with  
12       others to enhance the present health care delivery  
13       system of Northeastern and North Central  
14       Pennsylvania, and to be innovative in creating new  
15       ways of improving health care and welfare of the  
16       people of our region. They will execute their  
17       charitable activities against this mission, and in  
18       slightly different and complementary ways.

19               Upon receiving significant charitable  
20       funding provided for in the merger agreement the  
21       private foundation will be in a position to make  
22       extensive targeted grants to not for profits across  
23       the region, and to undertake larger activities or  
24       develop and fund self-designed charitable  
25       initiatives that are broad in scope. Its scale will

1 allow the private foundation to collaborate with  
2 other similarly commissioned organizations to make  
3 a substantial impact on the health and welfare of  
4 the people of this region.

5 It is anticipated that this broader  
6 scope will require a more in depth grant application  
7 process, more detailed grant proposals review, and  
8 greater oversight of how grant funds are used.

9 The public charity will make smaller  
10 unrestricted grants that focus on health, education,  
11 and disease prevention, human services activities,  
12 activities which improve the quality of life of  
13 children and families, activities for the promotion  
14 of social welfare, and lessening the burdens on  
15 government, including improving health care access,  
16 affordability, and quality of health care, and  
17 supporting other purposes that compliment the  
18 historic mission of BCNEPA.

19 Let me now discuss the timing of the  
20 charitable investments. Immediately prior to the  
21 closing of the merger transaction between BCNEPA and  
22 Highmark, BCNEPA will be transferring \$90 million  
23 from its capital reserves in the following manner:  
24 Approximately \$60 million dollars will be  
25 contributed to the private foundation to support its

1 grant making and programmatic activities. The  
2 private foundation will be able to immediately begin  
3 deploying these assets or the earnings thereon to  
4 carry out its charitable mission; another  
5 approximately \$10 million will be contributed to the  
6 public charity to support its grant making  
7 activities; and approximately \$20 million will be  
8 contributed to AllOne to be used to support its  
9 future growth, and enhance its future value for the  
10 benefit of its parent, the public charity, and  
11 ultimately the community, where we plan to create  
12 and grow this company, and create more jobs.

13 The merger agreement also provides  
14 that Highmark will contribute up to \$10 million in  
15 additional funds to these charitable entities in  
16 total, on the latter of one year after the closing,  
17 or March 31, 2016, if the merged organization meets  
18 certain financial milestones in 2015.

19 In conclusion, let me first thank you  
20 for your patience and for your attention. This  
21 merger agreement between BCNEPA and Highmark, Inc.  
22 provides for an unprecedented charitable investment  
23 in the future health and welfare of the residents of  
24 Northeastern and North Central Pennsylvania. This  
25 investment will make a substantial impact on health

1 across Northeastern and North Central Pennsylvania,  
2 and will provide an avenue through the growth of  
3 AllOne to create as many jobs as possible here  
4 without jeopardizing the financial viability of the  
5 company. To my knowledge no single transaction in  
6 our region's history has the potential for producing  
7 such a significant and lasting impact on the region  
8 we serve.

9                   Once again, thank you for the  
10 opportunity to offer comments on this important  
11 aspect of the merger. Obviously I'll be more than  
12 happy to respond to any questions that the  
13 Department may have.

14                   COMMISSIONER CONSEDINE: Thank you  
15 very much, Mr. Moses, and thank you, Ms. Cesare.  
16 And again, excellent presentations by both of you.  
17 Not surprisingly you anticipated a number of, I  
18 guess, more high level general questions that we had  
19 in terms of the major ways associated with a  
20 transaction like this, why a merger, why now, why  
21 Highmark, and I think you've done a good job of  
22 addressing many of those important questions. But  
23 let me start off by going maybe into a little bit of  
24 a deeper dive on some of them, and then turn you  
25 over to my colleagues for more specifics on other

1       key aspects of the transaction.

2                   Ms. Cesare, I guess in your  
3       presentation, and Mr. Moses touched on this as well,  
4       you laid out a fairly comprehensive process that you  
5       as a management team and a Board went through in  
6       evaluating a transaction of some type. The  
7       conclusion seemed to be pretty immediate toward some  
8       type of corporate affiliation merger, which is what  
9       we're presented with in terms of this filing. But  
10      maybe you can touch briefly on some of the other  
11      alternatives that you looked at other than a merger  
12      of the type that we're presented with in the filing,  
13      and why or why not those ultimately were not -- did  
14      not match up with the criteria that you laid out.

15                  MS. CESARE: Yes. Commissioner you  
16      can hear me, correct?

17                  COMMISSIONER CONSEDINE: Yes, I can  
18      hear you. Thank you.

19                  MS. CESARE: When we did, as I  
20      mentioned, we went through an RFP process with four  
21      candidates. We met with each of them rather  
22      extensively actually in going through the criteria  
23      that we had, and that the Board had established for  
24      this relationship. The other -- and I don't know if  
25      I'm at liberty to say who the other candidates were,

1 but two other Pennsylvania not for profit  
2 organizations. We had extensive negotiations with  
3 all of the parties, and considered a various array  
4 of potential affiliations, including merger. Based  
5 on how the Blues are established in Pennsylvania,  
6 our borders, the services we offer, the customers we  
7 served, after we had gone through multiple  
8 iterations reviewing how we can either merge,  
9 affiliate, et cetera, we concluded Highmark best met  
10 the goals that we had established.

11 Now, our key goals were, can we  
12 improve the service to the consumers, can we improve  
13 on product, price, affordability, availability, et  
14 cetera, can we preserve the jobs. And the job  
15 preservation was a key motivating factor in this  
16 whole transaction, honestly. So at the end of an  
17 extensive review process, negotiations with all  
18 parties, we finally did conclude an exclusive  
19 merger. And merger for the seamlessness of the  
20 products, the services, elimination of the borders,  
21 merger takes away all the limitation that Blue Cross  
22 of Northeastern to Pennsylvania had in being able to  
23 serve its constituencies. As I mentioned to you,  
24 the customer base in Northeastern Pennsylvania, as  
25 well as the provider base in Northeastern

1        Pennsylvania is growing beyond our 13 counties.  
2        They are merging with and are acquiring other  
3        companies, both provider and businesses. And being  
4        constrained and having borders in 13 of our counties  
5        made it very difficult for us. The merger with  
6        Highmark, which is now a statewide organization,  
7        allows us to best serve that community.

8                    MR. MOSES: I don't want you to think  
9        that there was a predisposition on the part of the  
10       Board as the form of the transaction. There were, I  
11       believe, 46 or 47 meetings in total, many of which  
12       not included in that that 46 or 47 prior thereto was  
13       a discussion by our Board, rather lengthy and  
14       thorough discussions with the benefit of experts and  
15       counsel as to what are the various options  
16       available, joint venture agreements, affiliations,  
17       other combinations of that. I can tell you very  
18       honestly that the two things that drove us  
19       ultimately after a very lengthy, deliberative  
20       process, and as Denise has said, interviewing all  
21       the candidates, was an increase in critical mass,  
22       and an expansion of geographical territory, and how  
23       could you best achieve that and stay honorable to  
24       the commitments we have in our region. And after a  
25       great deal of discussion we came to the conclusion

1       that it would be a merger. In fact, initial  
2       discussions with Highmark discussed all the various  
3       options also.

4                   COMMISSIONER CONSEDINE: Thank you,  
5       both. And, again, I guess going back to the  
6       alternatives, you know, I'm assuming, but certainly  
7       I will allow you to talk a little bit more, the go  
8       it alone approach I'm guessing was certainly a  
9       consideration, and again, you touched on, Ms.  
10      Cesare, some of the criteria that made that not a  
11      particularly viable approach for you, but  
12      nonetheless, how did in your discussions, both the  
13      management and the Board level, really address -- I  
14      think, you touched on this, the significant concerns  
15      about preserving the important corporate identity,  
16      cultural identity, employment relationships, that  
17      you as such a longstanding member of the corporate  
18      community here in the northern part of the state, in  
19      a merger where by very definition a merger means the  
20      two entities, one entity goes away. Again, I think  
21      you touched on some of those, but if you could go  
22      into the dynamics of why you think you've preserved  
23      some of those, again through a legal transaction  
24      that really does result in BCNEPA going away, at  
25      least in a corporate form.



1 MS. CESARE: All right. Let me go  
2 back to in 2011 just so there is an understanding of  
3 the process we went through that actually took us to  
4 concluding that we did needed to do something. In  
5 2011 when we had a research done by the external  
6 advisor the Board had asked the management team to  
7 find us other ways, what can we do to retain our  
8 independence. Throughout all of 2012 we explored  
9 numerous options as to how BCNEPA could remain a  
10 stand alone entity, and it would have required  
11 obviously diversification into other non-  
12 Blue-granted businesses outside of our market, some  
13 of which as you can see we've already vaulted. But  
14 we also looked at our provider affiliations and  
15 opportunities for us to remain independent. We  
16 explored a number of different options with advisors  
17 whether or not we could integrate and thus becoming  
18 an integrated delivery system. We actually did, as  
19 you're possibly aware, made the attempt to integrate  
20 with one of the local -- actually we had hoped it to  
21 be several of the local hospitals. We were  
22 unsuccessful in that bid. We also then explored  
23 other partnerships, whether or not we could  
24 integrate directly with physician practices to  
25 remain local. So maintaining the local presence,

1 the local culture, the commitment to the communities  
2 was first and foremost on the minds of not only the  
3 Board, but of the management team throughout the  
4 entire process. And as we looked at partners, which  
5 you don't see it specifically mentioned as a goal,  
6 cultural fit, shared values, shared vision, was also  
7 very important. And so as we looked at and spoke  
8 with everyone, those discussions were central to how  
9 we made our decision.

10 Highmark shares our commitment to the  
11 community, and we saw that evidenced through what  
12 they did with the Blue plans in West Virginia and  
13 Delaware. We know how they have operated. In fact,  
14 our Board was particularly concerned about the loss  
15 of jobs. We saw how they preserved and grew jobs in  
16 the Central Pennsylvania area as well. So they were  
17 a good cultural fit for us.

18 After our Board and management teams  
19 got together we felt they were the best alternative  
20 for preserving exactly what you just mentioned, our  
21 commitment to the community and culture.

22 COMMISSIONER CONSEDINE: Before I turn  
23 it over to my other colleagues, just sort of a final  
24 question for me. It may have been of concern to  
25 others. One of the key criteria that we will look

1 at as part of this process is the benefit of the  
2 this transaction to consumers and to policy holders,  
3 your policy holders, BCNEPA in particular, and  
4 again, I think your presentations did a very good  
5 job of laying out why this particular transaction  
6 makes sense from a corporate perspective, and  
7 certainly from a community prospective. And one of  
8 your slides did touch on the benefits to your policy  
9 holders. But if you could go into maybe a little  
10 bit more detail about those benefits, your  
11 confidence level in policy holders receiving those  
12 benefits. Again, the mechanics of how that might  
13 happen. I guess one of the considerations that you  
14 have laid out, the dynamics in the marketplace,  
15 Affordable Care Act being a very significant one,  
16 those same dynamics obviously affect Highmark as  
17 they are affecting you as well in terms of capping  
18 profitability. So, you know, how the Board went  
19 through, the management team went through, and in  
20 looking at again specifically the benefits to your  
21 policy holders, the achieveability of those, and  
22 what form they'll take over what time frame.

23 MS. CESARE: Okay. Thank you. Well,  
24 there are two major areas where we will be seeing  
25 benefit to the policy holders, and this is actually

1 the exciting part about the transaction, and the  
2 merger. Let me first start with the bigger impact,  
3 if I may, and that is really on health care  
4 delivery, how we manage disease, how we manage  
5 wellness, et cetera. As we said, we didn't have the  
6 size, the resources, the capital to invest in things  
7 we knew we needed to invest in in order to be able  
8 to transform health care's delivery in our region.  
9 And we have attempted over numerous years, from the  
10 time I became President I can say, trying to find  
11 new ways to work directly with providers to improve  
12 health care delivery, align our economic incentives.  
13 That obviously requires infrastructure, the  
14 relationships with the providers. They too are  
15 struggling with the same issues we are struggling  
16 with in terms of their size and their scale as is  
17 evidenced in the marketplace. We're seeing more and  
18 more of the providers coming together.

19 With the new Accountable Care Act, a  
20 movement toward accountable care organizations,  
21 patients that are in medical homes, et cetera, what  
22 we need is a partner that can work with us on our  
23 vision to share with their vision, how we can really  
24 enhance delivery of care and add value to the policy  
25 holders. I mean, simply going to get care and

1 negotiating a good unit price isn't enough any more.  
2 The term we are using now is value. Are the  
3 consumers getting value for the dollars they're  
4 paying. Are they getting the right outcome at the  
5 right price, at the right location, et cetera.

6 Highmark -- and this is the beauty of  
7 the relationship with Highmark, given that they are  
8 now an integrated health system, that they have the  
9 West Penn Allegheny as hospital system, and they  
10 have a provider system as a part of the  
11 organization, the learnings that can be translated  
12 into how we can improve health care delivery in  
13 Northeastern and North Central Pennsylvania are  
14 tremendous. So we've already begun conversations  
15 just as to what the learnings can be, and how they  
16 can translate, as the industry is doing. So the  
17 number one, if I could say, benefit to the policy  
18 holders should be improved high quality care, better  
19 efficiency throughput through the delivery system,  
20 and actually easing the burden of working through  
21 the maze.

22 Secondly, really it does get to the  
23 issue of scale, efficiency, and the administrative  
24 care cost benefits. The merger with Highmark, as I  
25 mentioned in my remarks, we already rely on heavily

1       for IT infrastructure, but the way that we are  
2       constructed is we are separate legal entities. We  
3       do have to maintain separate images of certain  
4       things because of just the security of health care  
5       information, et cetera. As we begin to get the  
6       benefit of their scale we don't have to make  
7       investments in new claim systems, new enrollment  
8       systems, new health and wellness systems that  
9       they've already got. It saves us. It benefits both  
10      our organizations by spreading those costs over  
11      larger populations, and ultimately the policy  
12      holders will see reduced administrative costs over  
13      time. That's the goal of this transaction.

14                   COMMISSIONER CONSEDINE: Thank you  
15      very much, Ms. Cesare.

16                   Ms. Rankin.

17                   MS. RANKIN: You both talked about the  
18      importance of employment and jobs in the area,  
19      preserving those. So I have kind of a multi-part  
20      question about jobs. Can you describe what your  
21      understanding of Highmark's commitment to the  
22      current employees of BCNEPA and the subsidiaries and  
23      affiliates, and then can you also talk about with  
24      respect to the employees of BCNEPA, and the  
25      subsidiaries and the affiliates, must Highmark treat

1 groups or classes of current employees the same, or  
2 may certain groups or classes of the current  
3 employees be treated differently from other groups  
4 and classes? And then finally, what is your  
5 understanding of Highmark's commitment to maintain  
6 the employment levels in Northeast and North Central  
7 Pennsylvania?

8 MS. CESARE: Okay. Hopefully I  
9 remember all three. If I get off track -- the  
10 commitment to jobs and employment in Northeastern  
11 Pennsylvania, Highmark has committed to continue  
12 operations in Northeastern and North Central  
13 Pennsylvania with the workforce, the current  
14 workforce of Blue Cross of Northeastern Pennsylvania  
15 for four years following the transition of, or the  
16 approval of the merger. What Highmark is committed  
17 to do is use reasonably commercial efforts to  
18 maintain this presence in Northeastern and North  
19 Central Pennsylvania. Now, our expectation is given  
20 that we are adding the capabilities of Highmark to  
21 our administrative efficiencies, as well as our  
22 ability to work more closely and in alignment with  
23 providers, we expect to be able to grow the  
24 membership base in Northeastern and North Central  
25 Pennsylvania, and ultimately be adding jobs in

1       Northeastern and Northeastern Pennsylvania.

2                       Now, your second question with respect  
3       to classes of employees, I believe, as far as  
4       classes of employees, our employees will be going  
5       into the Highmark organization and will become  
6       employees the Highmark organization, just as they  
7       are employees of Blue Cross of Northeastern  
8       Pennsylvania, recognizing their years of service, et  
9       cetera, and for a period of time the benefits that  
10      they currently have as we integrate into Highmark's  
11      structure. So there is no differentiation for class  
12      of employee once this merger is approved.

13                      Now, if I may, you asked specifically  
14      about subsidiaries and affiliates, and I want to  
15      make sure I thoroughly answer your question.  
16      Currently Blue Cross of Northeastern Pennsylvania  
17      has two -- well, multiple subsidiaries, two  
18      Blue-branded, First Priority Health, and First  
19      Priority Life. Those individuals will be treated as  
20      Blue Cross of Northeastern Pennsylvania employees  
21      and move into Highmark as Highmark employees. We  
22      also have two non-Blue-branded, AllOne Health  
23      Management Services, which essentially has fed the  
24      medical management arm of Blue Cross of Northeastern  
25      Pennsylvania. Those employees will become employees



1 of Highmark if the merger is approved. The AllOne  
2 Health Resources employees, which John mentioned,  
3 who are located primarily in the Boston market, will  
4 now become employees of Highmark, and will remain  
5 now with the public charity, once it is established.

6 Did that answer your question,  
7 Ms. Rankin?

8 MS. RANKIN: I believe so, yes.

9 MS. CESARE: Thank you.

10 MS. RANKIN: And then a second  
11 unrelated question is, beyond the merger you've  
12 described that as part of the transaction BCNEPA  
13 proposes to transfer or contribute up to 90 million  
14 of policy holder surplus to Northeastern  
15 Pennsylvania based charitable organizations, one  
16 being the existing private foundation affiliated  
17 with BCNEPA, the other to be formed, the public  
18 charity that you talked about earlier. In addition,  
19 BCNEPA will transfer to this public charity a  
20 hundred percent of the interest in BCNEPA's  
21 subsidiary, AllOne. We'll refer to that as AllOne  
22 as you asked earlier in your comments. In addition  
23 you've described Highmark has agreed to transfer an  
24 additional 10 million to the public charity if  
25 certain conditions are met. Can you describe the

1 factors considered in deciding to transfer the funds  
2 to these tax exempt organizations rather than to  
3 retain the funds in the merged entity for the  
4 continued benefit of the BCNEPA's policy holders who  
5 will become Highmark policy holders?

6 MR. MOSES: Is that addressed to me?  
7 As I indicated in my comments, I believe they may  
8 have a copy of it, on page 9, there was a very  
9 rigorous discussion as to why the two entities. And  
10 I think -- I think we have to make clear that the  
11 new foundation, and the new charity are unrelated to  
12 Highmark. Highmark is providing money into the  
13 foundation which will be the successor of the Blue  
14 Ribbon Foundation, but because of the association's  
15 regulation we can't even use the name blue or cross,  
16 or anything in it. We had to come up with a new  
17 name, and the foundation will be AllOne. And then  
18 the public charity, which is going to be the owner  
19 of the stock in the AllOne company will be getting  
20 \$20 million. Now, the reason why that was done was  
21 obviously the separation of the two entities was  
22 done for income tax reasons, as I indicated before.  
23 And the not for profit foundation will not be  
24 soliciting funds. The public charity will be. The  
25 public charity board will be a minority of Blue

1 Cross individuals, and a majority of non-Blue Cross  
2 individuals. The public foundation will consist of  
3 a board of Blue Cross individuals.

4 Now, I don't know how much more  
5 detailed I can be in response to your question,  
6 except to refer you to what I commented on on page  
7 9, and if you have any other more specific questions  
8 concerning the tax issues, I'm sure that our counsel  
9 will be able to provide you that information in  
10 writing.

11 COMMISSIONER CONSEDINE: Just a quick  
12 follow-up for both of you, and I guess one of the  
13 considerations with respect to the foundation, as  
14 you laid out, Mr. Moses, about \$90 million in policy  
15 holder surplus from BCNEPA is going into this  
16 foundation. That's a considerable sum of money.  
17 And again, that's -- those represent funds built up  
18 by policy holder premiums over a long period of  
19 time, and in other scenarios the company would wind  
20 up, or, you know, go into a for profit conversion,  
21 at least under some other states' laws those funds  
22 would ultimately go back to the policy holders in a  
23 much more direct way. Clearly as you laid out the  
24 foundation, based on what we're seeing you have  
25 provided some very significant benefits to the

1       larger community. But maybe both of you can touch  
2       on how does it -- will it specifically benefit the  
3       BCNEPA policy holders whose really contributions  
4       long term of the companies represent the 90 million  
5       that's being transferred to this foundation.

6                       MR. MOSES: All right. Let me -- in  
7       order to answer that question completely, let me  
8       separate that 80 million that we talked about, 60  
9       into the foundation and 20 into the public charity.  
10      Our view, obviously we can not speak for the board  
11      of the foundation, and be specific as to how we  
12      believe it will help, but the foundation should have  
13      some broad real foresight in investing this money.  
14      And, you know, I don't want to even throw examples  
15      out, but there are rural areas in our 13 counties  
16      that have no health care, and are underinsured. We  
17      have existing entities that provide free health  
18      care, if we could join up with them. We have  
19      residency programs right now that don't satisfy the  
20      needs of our community. The idea is to keep those  
21      doctors here, to keep health care here, so that  
22      people don't think they have to leave the area in  
23      order to get better health care, and to try to keep  
24      as many doctors as we can in the community. There  
25      are all kind of grand ideas. We met with your

1 experts and, and your legal counsel, I guess it was  
2 back in August, and I shared with them some specific  
3 thoughts that I might have of collaboration with  
4 existing entities that would have a real impact.

5 Now, the public charity, and you know,  
6 everybody -- a lot of people ask this question. The  
7 public charity will address issues of the needs of  
8 the local cancer society, the local heart  
9 association, and the -- the vision people, et  
10 cetera. But these grand ideas of how we can really  
11 truly have a substantial impact on health care in  
12 Northeastern Pennsylvania, and if we have that  
13 impact, that is in fact value to our policy holders.

14 COMMISSIONER CONSEDINE: Thank you.

15 Ms. Cesare, did you have anything you  
16 wanted to add?

17 MS. CESARE: I could add to Mr.  
18 Moses's comments, when we did look at other Blue  
19 transactions across the nation, and we did look at  
20 how could we preserve the value, I appreciate what  
21 you're asking. Perhaps another way of asking this  
22 is, should this \$90 million be going along with the  
23 policy holders into the Highmark organization. We  
24 did look at that. Policy holders change over time.  
25 There is no question that the surplus of the

1 organizations has grown over time as a result of  
2 investment. In fact, in the '90s alone we had over  
3 a hundred million dollars in appreciated value to  
4 the surplus, simply because of the stocks at that  
5 that did we had invested in. But as we looked at  
6 how to maintain a value to the organization, with  
7 being fair to the policy holders, many of whom may  
8 or may not be policy holders today, but would be  
9 residents of the region today, we felt it was  
10 important to retain the dollars specifically to be  
11 used for the purpose of benefiting the communities  
12 in Northeastern and North Central Pennsylvania,  
13 which would include policy holders today as well as  
14 previous policy holders who did contribute to those  
15 funds. And as we looked as to what the value of the  
16 organization was, we felt -- as we also looked at  
17 the other hospital transactions that occurred in the  
18 region, we felt that retaining a portion of that for  
19 the benefit of this region in particular makes  
20 sense, and the value, we actually used Cain Brothers  
21 to assist us in determining the value, which is how  
22 we landed on the \$90 to \$100 million.

23 COMMISSIONER CONSEDINE: Thank you.

24 Ms. Lucas.

25 MS. LUCAS: Thank you, Commissioner.

1                   Ms. Cesare, or Mr. Moses, with respect  
2           adding value to your region, what made you conclude  
3           that donations to two separate charitable  
4           organizations is in the best interest of the region  
5           rather than just one?

6                   MR. MOSES: It was our understanding  
7           based on a great deal of advice that we received  
8           that under the existing Internal Revenue Code, a  
9           nonprofit corporation that is exempt from a federal  
10          income tax as a private foundation would be subject  
11          to severe and excess business holdings penalties if  
12          it held more than a permitted percentage of stock in  
13          a for profit company. The existing Blue Ribbon  
14          Foundation, and its successor, the private  
15          foundation, which is where your question goes, would  
16          be unable to hold AllOne's stock. A nonprofit  
17          classified as a public charity, however, is  
18          permitted to hold stock without triggering these  
19          penalties. Therefore, a Pennsylvania not for profit  
20          will be created, and we will request the Internal  
21          Revenue Service to certify it as a public charity.

22                   That public charity will own the stock  
23          in the entity that we will immediately now domicile  
24          in Pennsylvania. So that the Commonwealth will get  
25          the benefit of that domiciliar relationship. And

1       that entity has a great growth potential, and the  
2       opportunity to grow jobs here in Northeastern  
3       Pennsylvania. And with a strategic plan to bring  
4       additional jobs from Boston here whenever possible,  
5       based on the growth of that company, we believe that  
6       we can create a great deal of jobs in Northeastern  
7       Pennsylvania, if we maintain this charity, the  
8       public charity, that retains the ownership of  
9       AllOne.

10               MS. LUCAS: Thank you, Mr. Moses. So  
11       then with respect to that determination, did you  
12       evaluate the administrative costs that would  
13       accompany splitting the money and funding the two  
14       foundations?

15               MR. MOSES: Yes. We explored that in  
16       detail, and as a matter of fact I think on page 11  
17       or so of my comments I talked about that. When we  
18       are talking about administrative costs, what our  
19       Board has agreed to do is, number one, no  
20       compensation for foundation board members or for the  
21       public charity members. Number two, the space that  
22       will be occupied will be occupied jointly by both.  
23       Number three, there will be shared staff. We  
24       anticipate -- we've engaged a firm called Criterion  
25       who is now exploring the possibility of engaging an



1 executive director or CEO who would be the executive  
2 director over both entities. So we explored what  
3 the administrative costs would be, and we think that  
4 after a great deal of discussion we have minimized  
5 what that will be.

6 MS. LUCAS: Thank you. As a follow-up  
7 to that, Mr. Moses, I understand that the board,  
8 that there will be shared board members throughout  
9 these organizations, is that correct?

10 MR. MOSES: Well, let me explain so  
11 that -- so that my answer is not confusing.

12 MS. LUCAS: Okay.

13 MR. MOSES: The public charity must be  
14 controlled by independent community members, not  
15 members that were on the Blue Cross board.  
16 Therefore, that board will have as a majority non-  
17 Blue Cross individuals. As well as Blue Cross board  
18 members, excluding the ex-officio member. We  
19 anticipate that that would be 32, 33 people. And  
20 that's not so bad, because we have got into this in  
21 detail, that's going to be the fundraising arm of  
22 the public charity. The foundation cannot, and will  
23 not raise money. The foundation board will have the  
24 Blue Cross board members, minus the ex-officio  
25 members, without the community minded board, except

1       for the present board of the foundation has two or  
2       three people on it that are not Blue Cross board  
3       members. So it will be, very honestly, a majority  
4       of the present Blue Cross board members that sit now  
5       on the Blue Cross board, before they -- before  
6       hopefully you approve the transaction, and a few  
7       other individuals. But does that answer your  
8       question?

9                   MS. LUCAS: Yes, it did. Thank you.  
10       And as another follow up, with respect to the board,  
11       you had indicated that the board will not be  
12       receiving compensation. Is that also true with  
13       respect to the private foundation board?

14                  MR. MOSES: Yes. So that I don't  
15       mislead the Department. Neither the public charity  
16       board members, the 32 or 33, nor the foundation  
17       board members, which would be 17 or 18, whatever it  
18       comes out to, will not be compensated as board  
19       members for those two public -- for those two  
20       charitable entities.

21                  MS. LUCAS: Thank you. I actually  
22       have one question that's kind of backtracking to the  
23       employment issue in the region. Of those employees  
24       who will become Highmark employees, what is the  
25       number that will have job protections, and how, and

1       for how long?

2                   MS. CESARE:   For a period of 18 months  
3       all of the employees who have been with the  
4       organization for, I believe it is a year prior to  
5       the approval, and I have to double check it to be  
6       absolutely certain, are protected, for the 18 month  
7       period with Highmark.

8                   For the four year period, there are no  
9       specified numbers or guarantees, if you will. The  
10      goal is to maintain a significant presence in the  
11      organization. And again, using commercially  
12      reasonable efforts. If we grow market share we can  
13      grow jobs. Obviously if we do not grow market share  
14      we cannot grow jobs. And to require the organization  
15      to maintain a level would actually hurt the policy  
16      holders, which we don't want to do. So I hope that  
17      clarifies that.

18                  MS. LUCAS:   Yes, it does. Thank you.  
19      And are there any employees who are going to  
20      Highmark, or who are not included in the protection?  
21      Like I believe you have certain shared employees, or  
22      employees I believe that you have said that they're  
23      IT employees, are those employees, do they fall out  
24      of these protections that you mentioned?

25                  MS. CESARE:   Those employees I think

1 to which you're referring are existing Highmark  
2 employees and have been Highmark employees for some  
3 time now. We are not including those Highmark  
4 employees who happen to be located in Northeastern  
5 Pennsylvania in our employee base.

6 MS. LUCAS: Thank you. And another  
7 follow-up question with respect to the board  
8 compensation. Is there -- the board that is on the  
9 Massachusetts based company, will that board be  
10 compensated?

11 MR. MOSES: The board of AllOne will  
12 be compensated.

13 MS. LUCAS: Thank you.

14 COMMISSIONER CONSEDINE: Any other  
15 follow up questions?

16 MS. RANKIN: No.

17 COMMISSIONER CONSEDINE: We may have  
18 more questions for both of you after we hear from  
19 the Highmark representatives, so I certainly advise  
20 you to remain at the table there. But if there  
21 aren't any more questions, at this point we'll move  
22 on to the presentations from Highmark, and Mr.  
23 Holmberg and Ms. Rice-Johnson.

24 Mr. Holmberg, I invite you to kick off  
25 from the Highmark perspective.

1 MR. HOLMBERG: Okay. Thank you.

2 Mr. Commissioner, Chief Counsel Lucas,  
3 Ms. Rankin, it's a pleasure to be here. I'm David  
4 Holmberg. I'm the President and CEO of Highmark  
5 Health, and with me this morning is Deb  
6 Rice-Johnson, President of Highmark Health Plan, a  
7 diversified health and wellness enterprise based in  
8 Pittsburgh.

9 We appreciate the opportunity to  
10 present information about the proposed merger of  
11 Highmark, Inc. and Blue Cross of Northeastern  
12 Pennsylvania. Highmark Health Services is the  
13 parent company of Highmark, Inc., the applicant in  
14 the Form A filing with the Pennsylvania Insurance  
15 Department. Highmark, Inc. and its affiliate  
16 companies comprises one of the largest health care  
17 insurance operations in the United States, and the  
18 fourth largest Blue Cross and Blue Shield affiliated  
19 organization. Highmark and its affiliates operate  
20 health insurance plans in Pennsylvania, Delaware,  
21 and West Virginia, that serve more than 4.5 million  
22 people. Highmark's diversified health business also  
23 serves groups of customers and individual health  
24 insurance needs across the United States for dental  
25 and vision care, and other related businesses.

1           The Highmark Health enterprise also  
2 includes the Allegheny Health Network, comprised of  
3 eight hospitals, physician organizations, a group  
4 purchasing organization, and ambulatory surgery  
5 centers. In April 2014 the enterprise established a  
6 new affiliate, Highmark, or HM Health Solutions,  
7 Inc., which delivers robust information technology  
8 platforms and is focused on meeting the needs of  
9 Highmark Health, Highmark, Inc., and other health  
10 insurance plans across the country. With the health  
11 plan and hospital system, as well as the diversified  
12 businesses that support financial stability and  
13 growth, Highmark Health has the pieces to change and  
14 invest in the new reality of health care. We are  
15 building a seamless system that will better serve  
16 our primary goal, meeting the needs of our  
17 customers. It is important to emphasize that the  
18 customers is at the head -- or the heart of our  
19 motivation for success. Health care is personal.  
20 It's about people. We're working to deliver a  
21 different more positive experience and better health  
22 outcomes, while insuring that we leave people  
23 financially standing. The future of health care  
24 will be shaped by growing consumer engagement, and  
25 we intend to lead that change. To do that, Highmark

1 Health Enterprises will continue to grow and  
2 diversify regionally and nationally, executing a  
3 well-defined strategy that will position the  
4 enterprise to fulfill its mission of delivering high  
5 quality, accessible, understandable, and affordable  
6 experiences, outcomes and solutions for our  
7 customers.

8 Highmark's merger with Blue Cross of  
9 Northeastern Pennsylvania is an important part of  
10 the overall strategy. Highmark is uniquely  
11 positioned to continue to serve the residents of  
12 Northeastern and North Central Pennsylvania through  
13 a merged company. A merger of BCNEPA and Highmark  
14 will assure that the needs of consumers in the  
15 BCNEPA service area are supported by a company with  
16 a strong commitment to its mission, and an ability  
17 to make meaningful contributions to local  
18 communities, both individually and through a diverse  
19 portfolio of companies. These companies in  
20 combination offer economic strength and employment  
21 potential. A merger of the BCNEPA with Highmark  
22 supports both companies' shared goals of assuring  
23 that customers have access to innovative, high  
24 quality, and high value products and services,  
25 including Blue-branded products and services offered

1 by a financially stable health plan with sufficient  
2 scale and scope.

3 Health care is changing rapidly as  
4 technology advances. Access to coverage, expands --  
5 excuse me, access to coverage expands and reforms to  
6 the delivery of the care evolve. To adapt to these  
7 changes and succeed, health plans must have a scale  
8 needed to compete, and the financial strength  
9 necessary to sustain long term viability.

10 In an increasingly cost conscious and  
11 consumer-centric market that exists today, delays in  
12 responding to changes in the competitive environment  
13 can have significant negative consequences.

14 Highmark has implemented an efficient and flexible  
15 organizational structure and business strategy that  
16 can quickly adapt to changing regulatory mandates.  
17 Highmark can also accomodate the introduction of  
18 competitive capabilities within months rather than  
19 years. Smaller insurers like BCNEPA are challenged  
20 by the need to make investments in capabilities to  
21 assure their long term sustainability in this new  
22 environment. By contrast, Highmark can fund the  
23 infrastructure investments necessary to operate  
24 efficiently, and comply with new government  
25 requirements and develop new products and services.



1 Highmark has the scale and capabilities and  
2 experience to address and ensure the long term  
3 availability of affordable, and high quality health  
4 care to consumers in Northeastern and North Central  
5 Pennsylvania. A Highmark/Blue Cross of Northeastern  
6 Pennsylvania merger will benefit the customers and  
7 communities both companies serve.

8 While I think it's important to  
9 broadly describe the Highmark Health Enterprise,  
10 this merger is about our health plan and the  
11 strategic partnerships that will provide its  
12 customers with a more seamless experience.

13 For this reason I'd like to now turn  
14 our presentation over to the leader of our health  
15 insurance company, Deb Rice-Johnson. Deb will  
16 provide an overview of the existing relationships  
17 between BCNEPA and Highmark, and how a merger  
18 between the two companies is a natural progression  
19 of those relationships.

20 Deb.

21 MS. RICE-JOHNSON: Thank you, David.  
22 Thank you Commissioner, Ms. Lucas, Ms. Rankin.

23 As David said, I'm Deborah  
24 Rice-Johnson. I'm the president of Highmark Health  
25 Plan, and I appreciate the opportunity today to

1 speak to you and share with you the benefits the  
2 proposed merger of Highmark and BCNEPA will have for  
3 consumers, including Highmark customers as well as  
4 current BCNEPA customers, and the communities of  
5 Northeastern and North Central Pennsylvania.

6 As David indicated, this merger is  
7 about meeting the needs of consumers during a period  
8 of significant transformation in health care. The  
9 merger of Highmark and BCNEPA will ensure that the  
10 consumers in the current BCNEPA's service area will  
11 continue to have access to high quality health  
12 insurance products and services, including high  
13 quality Blue-banded products and services. Let me  
14 explain why we are here, how we intend to accomplish  
15 our objectives, and why we believe we will succeed.

16 Highmark and BCNEPA already work  
17 together in various forms of business partnership to  
18 serve the Northeastern and North Central  
19 Pennsylvania region. This partnership has existed  
20 for many years and is currently built around four  
21 primary arrangements that are important to the  
22 financial and strategic objectives of both  
23 companies.

24 First, Highmark is a minority  
25 shareholder owning a 40 percent equity interest in

1 two of BCNEPA's key subsidiaries, First Priority  
2 Life Insurance Company, and First Priority Health.  
3 These two subsidiaries represent the majority of  
4 BCNEPA's Blue-branded book of business.

5 Second, Highmark provides the Shield  
6 portion of Highmark and BCNEPA's joint Blue Cross  
7 Blue Shield insurance products in the 13 counties  
8 comprising BCNEPA's service area. Highmark's  
9 Premier Blue Shield professional network currently  
10 has more than 3,950 physicians and other health care  
11 providers who are located in the BCNEPA service  
12 area.

13 Third, Highmark and BCNEPA participate  
14 in a risk sharing arrangement around Highmark's  
15 Medicare Advantage product.

16 Finally, Highmark is BCNEPA's primary  
17 supplier of data center, claims and Blue Card  
18 processing, and other shared services that provide a  
19 portion of the infrastructure required to administer  
20 BCNEPA's business.

21 Given these existing relationships  
22 with BCNEPA and our long history of partnership,  
23 Highmark believes that it is uniquely positioned to  
24 meet the needs of BCNEPA's current customers, and to  
25 continue BCNEPA's historical mission of serving the

1 health insurance needs of the residents of the  
2 communities it serves. Highmark has a track record  
3 of successful contractual and other relationships  
4 with other Blue plans, including an affiliations  
5 with the Blue plans in Delaware and West Virginia.  
6 The merger of Highmark and BCNEPA should produce the  
7 same types of benefits that we have achieved in West  
8 Virginia and Delaware, and in addition will allow  
9 for the creation of even more seamless products,  
10 brands, and service experience for customers and  
11 providers. The merger, therefore, presents an  
12 opportunity to bring maximum benefit to  
13 stakeholders.

14 From Highmark's perspective, the  
15 proposed merger will also serve to protect  
16 Highmark's existing business interests in the  
17 current BCNEPA service area and the contiguous  
18 counties. These existing business interests are  
19 important to assuring that we can meet the health  
20 insurance needs of several hundred thousand Blue  
21 subscribers, and Blue Card users whose health  
22 benefits are currently administered by BCNEPA.

23 Nearly half of Highmark's largest  
24 employer group of customers with operations in  
25 Pennsylvania have employees who reside in the BCNEPA

1 service area. These Highmark subscribers obtain  
2 coverage through their employers who are located  
3 outside the BCNEPA service area. A merger of BCNEPA  
4 and Highmark will strengthen Highmark's ability to  
5 serve these customers in the highly competitive  
6 areas currently served by BCNEPA by allowing for  
7 more efficient and seamless administration, provider  
8 choice, and availability of innovative products and  
9 services.

10 Highmark provides insurance products  
11 and services to subscribers in counties contiguous  
12 to the BCNEPA service area. Many of these  
13 subscribers receive care from providers located  
14 inside the BCNEPA service area. Subscribers access  
15 this care through BCNEPA's provider contracts with  
16 hospitals, and Highmark's Premier Blue Shield  
17 professional network for physician services. In  
18 total, these Highmark subscribers account for  
19 hundreds of millions of dollars in annual care costs  
20 and payments to providers across the two companies'  
21 currently separate service areas. A merger between  
22 Highmark and BCNEPA will lead to more efficient  
23 administration of products and services, ultimately  
24 improving service to Highmark's customers in the  
25 contiguous counties, and to our larger employer and

1       natural business as well.

2               In addition to preserving Highmark's  
3       business interests in Northeastern and North Central  
4       Pennsylvania, a merger between Highmark and BCNEPA  
5       will also strengthen Highmark by broadening the  
6       geographic diversification of its business. This  
7       will in turn reduce Highmark's dependency on Western  
8       Pennsylvania, giving Highmark the opportunity to  
9       grow its business and strengthen its financial  
10      position, ultimately to the benefit of our  
11      subscriber base.

12              The contribution to Highmark in terms  
13      of economies of scale and portfolio diversification  
14      that will result from the merger are important to  
15      the financial strength and stability of Highmark in  
16      its other core local service areas of Central and  
17      Western Pennsylvania, and to the service areas of  
18      Highmark's Delaware and West Virginia affiliates.  
19      The merger will bring growth opportunities and scale  
20      based cost efficiencies and is accretive to Highmark  
21      across key financial aspects of the business.

22              A critical component of Highmark's  
23      business strategy to remain competitive with large  
24      national insurers has been to gain efficiencies of  
25      scale by offering a range of shared services and

1       system licensing through contractual arrangements  
2       with other Blue plans. As I have previously  
3       mentioned, Highmark also has concluded affiliations  
4       with the Blue plans in Delaware and West Virginia.  
5       In addition to providing other strategic value,  
6       these various forms of arrangements and transactions  
7       with other Blue plans provide economies of scale  
8       that help Highmark remain competitive, to the  
9       benefit of our collective customers.

10               Although BCNEPA currently uses a  
11       number of Highmark systems, with the merger of  
12       BCNEPA into Highmark, Highmark expects to realize  
13       additional scale improvement to its administrative  
14       efficiency. Highmark's intention is to leverage the  
15       full breadth of Highmark's core administration  
16       platform, business processes, business contracts and  
17       experiences to improve administrative efficiency and  
18       enhance the customer experience in Northeastern and  
19       North Central Pennsylvania. The addition of several  
20       hundred thousand full service BCNEPA subscribers to  
21       Highmark's platform will produce significant savings  
22       over the first five years after migration. In  
23       addition, significant capital expenditures which  
24       BCNEPA otherwise would have had to incur over the  
25       next five years can be avoided.

1                   Unlike most other states, in  
2       Pennsylvania there are multiple Blue plans, and the  
3       population of commercial Blue-branded subscribers  
4       are split and fragmented across different service  
5       areas. This results in significant disadvantages  
6       for the plans and their customers. Subscribers are  
7       often confused by different product offerings,  
8       different distribution channels, and the  
9       administration of benefits and services. The  
10      adoption of Highmark processes and systems to  
11      support business in the BCNEPA service area will  
12      ensure operational and service consistency and  
13      flexibility across Highmark's operations. Highmark  
14      does not currently offer medical insurance product  
15      in the BCNEPA service area independent of BCNEPA.  
16      With the merger and the resulting elimination of the  
17      contiguous county border and Blue Card distinction  
18      that currently separates the 13 county BCNEPA  
19      service area from Highmark's other Pennsylvania  
20      regions, Highmark will achieve seamless  
21      administration of products, services and customer  
22      experience across its Pennsylvania regions.

23                   Highmark expects that following the  
24      merger the current business and health insurance  
25      products of BCNEPA entities will be transitioned to



1 similar products and benefit designs in Highmark's  
2 product portfolio used in Highmark's other  
3 Pennsylvania regions, replacing BCNEPA's current  
4 products over time. While the Highmark Blue Cross  
5 Blue Shield products will have similar features and  
6 benefit designs as those historically administered  
7 by the BCNEPA entities, some differences may occur  
8 as these historical products are transitioned and  
9 replaced by Highmark's products and benefit  
10 offerings.

11 Being able to to offer customers  
12 products that enhance value is an imperative for  
13 Highmark. BCNEPA currently does not have, except in  
14 pilot form, programs that shift the consumer and  
15 provider experiences towards value based care and  
16 products, such as Accountable Care Organizations,  
17 and Patient Centered Medical Home programs.

18 Currently Highmark has two signature programs of  
19 this type, Quality Blue Patient Centered Medical  
20 Home, and Quality Blue Accountable Care Alliance.

21 Early returns from other regions indicate that these  
22 programs slow the growths of health care costs while  
23 improving quality, a significant benefit to  
24 subscribers and plan sponsors. Backed by Highmark's  
25 substantial experience in implementing these

1 innovative models in other regions, we intend to  
2 introduce these types of programs to the BCNEPA  
3 service area following the merger, which will  
4 enhance and expand BCNEPA's existing programs. The  
5 introduction of these value based products and  
6 programs should allow us to improve health care  
7 quality in the region while still managing costs.

8 With regard to the provider networks,  
9 following the merger FPLIC's current PPO and  
10 Traditional Professional networks will be replaced  
11 over time with Highmark's Premier Blue Shield and  
12 Traditional Professional networks. These Highmark  
13 professional networks are larger than the current  
14 FPLIC professional networks and will accordingly  
15 increase access to Blue-branded products for  
16 consumers. Highmark does not have an HMO  
17 professional network in the BCNEPA service area  
18 today. The current FPH HMO professional network  
19 will become available to Highmark after the merger.  
20 Similarly, Highmark and BCNEPA have no overlapping  
21 hospital contracts in the BCNEPA service area today,  
22 so BCNEPA's existing contracts will be Highmark's  
23 contracts after the merger, ensuring continued  
24 access to a broad provider network for consumers in  
25 the region.

1                   With the consolidation of provider  
2     networks and the introduction of new reimbursement  
3     methods and incentive programs that span the  
4     geographic region, the currently separate  
5     administrative delivery of programs by Highmark and  
6     BCNEPA will be combined. This will result in more  
7     efficient and consistent programs, improved consumer  
8     experience, and enhanced provider satisfaction. The  
9     merger also will allow the combined company to  
10    extend these benefits to the currently fragmented  
11    service areas north and south of the I-80 corridor.

12                  In summary, the merger of Highmark and  
13    BCNEPA will result in additional scale, reduction in  
14    the need for capital expenditures to meet changing  
15    market needs, and synergy opportunities. These  
16    benefits will enable the combined company to  
17    continue to offer affordably priced products in the  
18    Northeastern and North Central Pennsylvania  
19    region, while simultaneously allowing for the  
20    enhancement of the products, services and population  
21    health management programs offered in the region and  
22    in contiguous areas.

23                  I would like to take just one moment  
24    to address two other areas of vital interest to both  
25    BCNEPA and Highmark, local influence and the BCNEPA

1 workforce.

2 Denise has already mentioned that the  
3 merger agreement provides for creation of a local  
4 Advisory Board, drawn from the current BCNEPA Board  
5 of Directors. She also mentioned that the merger  
6 agreement provides for the appointment of four  
7 additional members to the Highmark Board of  
8 Directors, also drawn from the current BCNEPA Board.  
9 Highmark's commitment to these arrangements lasts  
10 four years. Highmark believes that the Advisory  
11 Board will provide it with valuable insights and  
12 support in matters relating to the former BCNEPA  
13 business, and that additional directors will bring a  
14 unique perspective to the Highmark Board.

15 With respect to the BCNEPA workforce,  
16 Highmark recognizes the importance of BCNEPA's  
17 employees to the economic vitality of the  
18 Northeastern and North Central Pennsylvania region,  
19 and has made a commitment to maintain operations in  
20 the BCNEPA region. Highmark also has agreed that  
21 for the first four years following the merger  
22 Highmark will use commercially reasonable efforts to  
23 maintain local employment levels, including  
24 employment in Highmark's affiliated companies in the  
25 region, that are consistent with the BCNEPA's

1 pre-merger employment levels, subject to certain  
2 allowances for losses in regional enrollment.

3 As is the case in most mergers, the  
4 merger of BCNEPA into Highmark will produce  
5 opportunities for administrative efficiencies across  
6 the combined company's workforce. While  
7 organizational efficiencies will drive  
8 administrative synergies when the two companies'  
9 operations are integrated, we expect this to occur  
10 over a period of time, with much of the change  
11 resulting from normal attrition.

12 The merger will afford Highmark the  
13 ability to integrate talented staff from BCNEPA into  
14 important functions in Highmark, provide career  
15 opportunities for transitioned employees while at  
16 the same time creating opportunities for Highmark  
17 and its affiliated organizations to enhance their  
18 talent base and skill sets.

19 BCNEPA's workforce not only shares a  
20 similar operating culture with Highmark, but many  
21 employees have direct experience using Highmark  
22 systems in the performance of their current work  
23 activities. The experience of these employees will  
24 ease their transition to the Highmark organization  
25 and reduce Highmark's training and transition costs.

1 Highmark's experience in 2011 of hiring nearly 40  
2 employees from the BCNEPA's information technology  
3 organization following a migration of certain BCNEPA  
4 systems to Highmark's data center, and our  
5 management experience from our affiliations in  
6 Delaware and West Virginia, will facilitate the  
7 effective transition and integration of the BCNEPA  
8 business an employees into Highmark.

9 In conclusion, a merger between  
10 Highmark and BCNEPA is an important next step in the  
11 evolution of health care finance and delivery in the  
12 Commonwealth. For the reasons I have discussed,  
13 this merger will not only benefit the resulting  
14 combined company, but it will also benefit  
15 providers, and most importantly, the customers of  
16 the combined company.

17 COMMISSIONER CONSEDINE: Thank you  
18 both very much for your presentations.

19 Before I get into questions, and again  
20 we certainly do have some, we are running a little  
21 behind on our original proposed schedules, and like  
22 most plans we're flexible enough to adapt, and I  
23 think what we are going to propose doing is to  
24 probably have the questions for the Highmark team,  
25 move to Dr. Capps' presentation, take a quick break,

1       and then continue the Q and A and our consultants  
2       until after lunch. So that gives us time to  
3       continue what are some very important lines of  
4       questions. I think that should work since the  
5       number of public comments that we have signed up for  
6       at this point are fairly minimal. So with your  
7       hopeful agreement that will be our proposal for the  
8       remainder if the morning.

9               With that, let me kick it off with  
10       just sort of a general question, Mr. Holmberg, for  
11       you, but certainly Ms. Rice-Johnson can weigh in as  
12       well. One of the lessons learned as both a  
13       regulator and as a recovering corporate attorney is  
14       that aggressive growth strategies sometimes can  
15       result in poor execution, integration, and often can  
16       be counterproductive of some of the original  
17       intended goals. And certainly Highmark has had more  
18       than its fair share, as we all well know here in the  
19       Insurance Department, on its plate the last few  
20       years. Obviously the most recent being the  
21       completion of the affiliation with West Penn, but  
22       certainly that is a project that continues with very  
23       significant integration issues there. The  
24       referenced merger, or affiliation with Delaware, I  
25       know there are other things that you're certainly

1       doing out in the marketplace, and on top of all of  
2       that the Affordable Care Act, and everything that  
3       that's doing in its very transformative way for  
4       companies such as Highmark.

5               So I guess the question, is, you know,  
6       what are you doing from a senior management level to  
7       really manage the implementation of what is I think  
8       an aggressive strategic plan really to insure that  
9       you're not doing too much here too fast?

10              MR. HOLMBERG:   Okay.   First of all,  
11       there is a lot going on, and we are very cognizant  
12       of the importance of not only being strategic, but  
13       also to make sure we have strong execution in  
14       everything that we do.   So I think what you -- and  
15       specific to this in particular merger, one of the  
16       advantages is that we have been in partnership with  
17       BCNEPA for a number of years now, particularly on  
18       the system side.   And so that gives us a great level  
19       of confidence, in that we know the people, we know  
20       the skill sets.   We have already addressed some of  
21       the things that are most complicated in a merger,  
22       and around the systems, et cetera.   So we're very  
23       comfortable that this will be a very seamless kind  
24       of fit.

25              At the same time, to address your



1 broader concern, as an organization we've made a  
2 number of additional changes in our structure. At  
3 Highmark Health, and how the enterprise operates,  
4 we've made a number of promotions. We've brought  
5 some people, in addition to our seasoned experienced  
6 people, who bring a new set of skills. And that's  
7 really all driven by what Deb and Denise talked  
8 about, the changes in health care, and the way the  
9 environment is working.

10 We're very comfortable that this  
11 will be a solid easy -- you never say easy, but a  
12 solid approach, particularly given that we've just  
13 completed the Delaware acquisition. And that's gone  
14 very well. In fact, to Deb's comments, we are now  
15 entering a phase of growth there, which is very  
16 exciting, and that growth is really being driven by  
17 the new capabilities that we are able to bring to  
18 Delaware, and the skill sets that the combined  
19 merger has brought to the table.

20 And so, you know, I think we're very  
21 comfortable that we can execute this, and we also  
22 are very good at compartmentalizing, so that the  
23 focus on whether it be the West Penn Allegheny  
24 acquisition is being operated by different people  
25 than the people that are being involved here. We

1 have dedicated people at BCNEPA.

2 MS. RICE-JOHNSON: And if I could just  
3 add, BCNEPA has a very strong management and  
4 employee base, very seasoned, very skilled, very  
5 familiar with how we do business, familiar with  
6 using our platforms, which really does put us we  
7 believe ahead of a plan of typical merger. And so  
8 that combined synergy of talent between Highmark's  
9 participation and BCNEPA we do believe will help us  
10 get through this very, very seamlessly. I won't say  
11 easily, but seamlessly.

12 COMMISSIONER CONSEDINE: Thank you.  
13 Deb, you touched a little bit on sort of, you know,  
14 how this may play out over the course of five years  
15 in terms of the integration. Given the longstanding  
16 relationship that you've had with BCNEPA, and you've  
17 touched on the benefits that go into a merger like  
18 this where it's a different situation where you have  
19 two companies that, you know, haven't had the  
20 benefit of that longstanding relationship, that  
21 said, what do you see really as the immediate low  
22 hanging fruit that you plan to take advantage of,  
23 again, for benefiting the policy holders and  
24 community in particular, and then sort of what are  
25 the longer term goals that fit into Highmark's

1 overall strategic plan that you look to achieve?

2 MS. RICE-JOHNSON: Certainly. So I  
3 think to start being able to promote the seamless  
4 products in our combined marketplaces is very  
5 critical. As I said in my comments, you know, right  
6 now we're separated by the I-80 corridor, and  
7 unfortunately neither of us have been able to be  
8 very seamless in our approaches to the market.  
9 That, as well as working with providers differently.  
10 The providers don't look at our sort of barrier in  
11 where we can do business, our service areas, the  
12 same way we do. And so many of these providers that  
13 BCNEPA are working with, and we are working with  
14 from Highmark, are trying to do work together,  
15 collaborate differently. We believe we can provide  
16 the infrastructure, the type of tools, the provider  
17 reimbursement mechanisms, as well as the products  
18 will allow us to deliver that. And that is an  
19 immediate approach. And we have had providers  
20 already from BCNEPA approach us about how we might  
21 be able to work more cooperatively, if not more  
22 collaboratively, as we move forward. That's the  
23 immediate effort.

24 I think going forward, and longer  
25 term, we have great growth opportunities. And

1       certainly whenever we look at those contiguous  
2       counties across our -- our respective service areas,  
3       we have not been able to grow well, for some of  
4       reasons that I've mentioned. As well as some of the  
5       competition that is in those marketplaces.

6               And so the ability to really deliver  
7       something that is much more acceptable to the  
8       markets, as we look at government programs  
9       increasing, so certainly around the ACA products,  
10      and other government business, and being able to  
11      operate more seamless for the statewide businesses  
12      that we deliver on will be a longer term approach  
13      that I think will benefit the community, our  
14      customers, the policy holders, as well as the  
15      provider community.

16              COMMISSIONER CONSEDINE: Thank you.  
17      Just a follow-up on the provider relationship  
18      question. Obviously a very significant dynamic in  
19      our sort of new health care landscape here, and as  
20      we obviously look into different parts of the state,  
21      Western Pennsylvania being a good example, there are  
22      clear tensions between large insurance companies and  
23      large provider groups, hospital systems. How do you  
24      plan to deal with those types of relationships in  
25      this part of the state, where again we have some

1       very large hospital systems that will be still very  
2       integral to any part of network that you would rely  
3       on for purposes of the products and services that  
4       you have. So I guess the question is, can we expect  
5       to see some of the tensions that we're seeing in the  
6       western part of the state play out in the central  
7       part and northern part of the state, or do you plan  
8       to approach those relationships, as you said, in a  
9       more collaborative way here?

10               MS. RICE-JOHNSON: For the record, we  
11       are trying to collaborate in Western Pennsylvania.  
12       But I will not go there.

13               COMMISSIONER CONSEDINE: That's a  
14       different area.

15               MR. HOLMBERG: And that's not easy.

16               MS. RICE-JOHNSON: We have built an  
17       infrastructure that will allow us to really  
18       introduce better reimbursement models that are more  
19       important to providers. So our incentives and the  
20       way that payers and providers work are really far  
21       apart from what each of them need as they try to  
22       deliver for the community, for the patients, the  
23       policy holders. Infrastructure we have built, and  
24       frankly have implemented, early on findings around  
25       our Central PA and Western PA infrastructure, with

1 the provider reimbursement mechanisms around ACO,  
2 the patient-centered medical homes, have really  
3 started providing better incentives that are aligned  
4 with what we're trying to do, and that is to manage  
5 risk, reduce health care costs, and at the same time  
6 allowing providers to have much more involvement in  
7 how that all works. And frankly, reimburse for the  
8 benefits, and share in some of those savings that  
9 our customers will see as a result.

10 We believe that those can be used, and  
11 will likely be something that, you know,  
12 Northeastern PA providers will be interested in. We  
13 know from early discussions some of those providers  
14 are very interested, because they're talking to some  
15 of the providers in Central Pennsylvania that  
16 they're trying to do business with, or collaborate  
17 with on different models to really promote the kind  
18 of care and patient-centered medical home type  
19 methodologies across the region.

20 So we believe we'll be able to  
21 collaborate differently, and unlike Western  
22 Pennsylvania, even those providers that offer  
23 competitive services around insurance products, you  
24 know, we work with them, we have contracts with  
25 them. And we talk about different mechanisms that

1 can really help us manage the population more  
2 effectively.

3 MR. HOLMBERG: And the merger will  
4 give an opportunity to bring the capabilities in  
5 place, so that we can be creative, and execute those  
6 kinds of new innovative solutions to health care  
7 that address, access and address the affordability,  
8 and the future is going to be more of a partnership  
9 approach for everyone in order to address the long  
10 trends. And we think that we can moderate the cost  
11 component of health care, the increases, by working  
12 together, and come up with better solutions.

13 And I think with the capability of the  
14 combined organization we'll be in a much better  
15 place to do that, and to provide real value to the  
16 members and consumers.

17 COMMISSIONER CONSEDINE: Thank you  
18 both.

19 Ms. Rankin.

20 MS. RANKIN: Just one follow up  
21 question, I believe for Mr. Holmberg. And with  
22 respect to jobs, and we did hear Ms. Rice-Johnson  
23 speak to that somewhat, but I'm interested in your  
24 perspective similar to what we asked Ms. Cesare, of  
25 what is your understanding of Highmark's commitment

1 to maintain employee levels in Northeast and North  
2 Central Pennsylvania?

3 MR. HOLMBERG: So Highmark's  
4 commitment is to do everything that's commercially  
5 and reasonably sound. We believe in sustainable  
6 jobs. We believe in making sure that we create  
7 opportunities wherever possible. And so what that  
8 means is, you know, we're committed to, you know, to  
9 keeping as many jobs as possible in the region. But  
10 that will be market driven. That will be based on  
11 our ability to grow the number of members that we  
12 have. It will be based on our ability to bring new  
13 innovative solutions to the marketplace. And I  
14 would refer you to what we've done in Delaware where  
15 we have similar commitments, and we are now three  
16 and a half years later, and what we have done is the  
17 combined entities have new capability in the  
18 marketplace, and for the first time just won half of  
19 the Medicaid business for the State of Delaware.  
20 That didn't happen before. And the reason why it's  
21 happening today is because taking the constraints of  
22 the plan there, combined with the capabilities of  
23 Highmark, that's going to create several hundred  
24 jobs above and beyond where we are at today.

25 And so there's opportunities like that



1 over time that will happen. But specifically to  
2 answer your question, I mean, we're going to use  
3 commercially and reasonable approaches to make sure  
4 that we preserve the jobs in the community, and we  
5 look for ways to grow, particularly here where we  
6 have assets and we have talent.

7 MS. RANKIN: Thank you. So you  
8 basically agree with Ms. Cesare's characterization  
9 of preservation of jobs?

10 MR. HOLMBERG: Fundamentally.

11 MS. RANKIN: Thank you.

12 COMMISSIONER CONSEDINE: Ms. Lucas.

13 MS. LUCAS: Thank you, Commissioner.

14 Mr. Holmberg, Ms. Rice-Johnson, with  
15 respect to your discussions with synergy and  
16 efficiency, how do you expect the merger to impact  
17 other populations of the region such as vendors,  
18 that BCNEPA has had relationships with.

19 MR. RICE-JOHNSON: So we'll be working  
20 very closely with the BCNEPA management team to  
21 understand those relationships more deeply. Once  
22 we're able to do that in a merged organization to  
23 understand exactly what value they bring, we always  
24 are assessing our partnerships with vendors and  
25 services that they provide to our customers jointly

1 with us, and we'll do the same there. So I see that  
2 fitting into the model we currently have, and we  
3 believe that there will be opportunities maybe to  
4 extend some of those relationships, and maybe  
5 opportunities to look for other relationships that  
6 can enhance what we need to provide in the  
7 communities.

8 MR. HOLMBERG: And I would just add,  
9 if there's someone or an organization that's doing  
10 something really well for BCNEPA today, our interest  
11 is figuring out, could they play a greater scale  
12 with the rest of Highmark, is there an opportunity  
13 to bring value that four and a half million members  
14 would appreciate. So we look at it a little  
15 differently on that approach. And, again, we are  
16 very cognizant of creating partnerships in the  
17 community, and creating real value in the region.  
18 We think that's part of our mission, in addition to  
19 health care, is to figure out how to strengthen,  
20 particularly in Pennsylvania, the markets we serve  
21 as a whole.

22 MS. LUCAS: And with respect to the  
23 integration, could you please give the Department  
24 kind of a snapshot of this timeline you expect for  
25 the integration to occur?

1 MS. RICE-JOHNSON: Right. So what we  
2 would be looking at, once the merger is approved we  
3 would begin looking at renewal business to start  
4 bringing business onto our platforms as that occurs.  
5 That will be inclusive of, you know, fully  
6 integrating into our platform, our environment.  
7 They do currently use some of our technology today.  
8 That will become much more fully integrated. And we  
9 would do that along with providing new products in  
10 the marketplace. So we would see that, depending on  
11 exactly when the merger would be approved, upon  
12 renewal starting new business so that we can  
13 actually capture the full value of what we believe  
14 this transaction can provide as quickly as possible.

15 MS. LUCAS: And then post-merger does  
16 Highmark anticipate any major changes outside of  
17 what's been discussed so far?

18 MS. RICE-JOHNSON: I think the major  
19 changes that we spoke about are the really key  
20 points to the merger, that being better provider  
21 collaboration and models that provide value to the  
22 community and to our members, while helping  
23 providers to be sustainable. I think providing a  
24 more seamless product. So I think it's all very  
25 positive for consumers both in the Northeastern PA

1 service areas, as well as Central Pennsylvania,  
2 where we have lots of opportunity to really work  
3 much more collaboratively.

4 MS. LUCAS: Thank you.

5 COMMISSIONER CONSEDINE: I guess just  
6 sort of a follow up on that question, at this point  
7 Highmark, assuming this transaction will move  
8 forward, will have a significant operational  
9 presence here in the Northeast part of the state,  
10 obviously the Central part of the state, certainly  
11 in the Western part of the state, but also in  
12 Delaware, you know, and at some point I think we all  
13 realize that, you know, you have to achieve the  
14 efficiencies coming from an operation like that, you  
15 have to centralize operations, or re-task them in  
16 some ways. Can you talk maybe a little bit about  
17 Highmark's overall strategic plan as it relates to  
18 the different operational silos it has, not only in  
19 Pennsylvania, but increasingly in different parts of  
20 the country, and how you will approach that in the  
21 short term, and long term I think you mentioned in  
22 some of your other offices they have been  
23 re-purposed quite successfully to deal with your  
24 expanding business, so maybe some of those aspects  
25 as well as you move forward.

1                   MR. HOLMBERG: Let me take a shot at a  
2 higher level, and then for the specific question Deb  
3 can answer it.

4                   MR. HOLMBERG: Our approach is, you  
5 know, we're looking at our overall strategy on a  
6 regional basis, and on a national basis. So on a  
7 regional basis, in Pennsylvania, Delaware, West  
8 Virginia, and we're building up as much capability  
9 as we possibly can to serve customers in the new  
10 world. We do have an integrated delivery system in  
11 Western Pennsylvania. We view that as an  
12 opportunity. It's the ultimate risk sharing model.  
13 The object of the game there is to figure out how  
14 to improve quality outcomes, create access, and to  
15 make health care even more affordable. And so we  
16 want to take what we learn there and we want to  
17 apply it to the other regions that we work with.

18                   And so to Deb's comments earlier,  
19 our goal is to take that information that we gain  
20 there, and to bring it to Central Pennsylvania,  
21 Northeastern Pennsylvania, entering partnership  
22 formats where it can make sense. And then we have  
23 our national strategy and our natural businesses,  
24 which their purpose is to not only expand the region  
25 scope of Highmark, but to provide the strategic

1 portfolio assets that may be of value.

2 So, for example, here in the Northeast  
3 portion of Pennsylvania, I don't believe that BCNEPA  
4 today has the vision and dental offerings that are  
5 available to them in this merger. So we'll bring  
6 those to bear here. But on a national level, those  
7 businesses give us intelligence and intellectual  
8 property that we're able to bring back to the core,  
9 and they also create profitability.

10 We anticipate continuing to expand.  
11 We will look for strategic opportunities where they  
12 exist. And, you know, if there's an area like here  
13 where there's a talent pool that does something  
14 really, really well, we want to build centers of  
15 excellence. We want to figure out how to support  
16 more than just this region, but to support the  
17 entire enterprise. So if there's something we do  
18 really well here that we can apply to the rest of  
19 the country, we want to do that.

20 I don't know if you have anything  
21 specific?

22 MS. RICE-JOHNSON: I would just add  
23 that maybe one level deeper that our platforms and  
24 technology, our issue environment allows us to be  
25 very virtual. And so, you know, in regards to

1 meeting to pull things together, really not  
2 necessary. As a matter of fact, in Western  
3 Pennsylvania many of the jobs that we employ, we  
4 allow people to work from their home to accomplish  
5 their tasks. So, you know, from the perspective of  
6 where people are, it doesn't matter so much.

7 Additionally I would say, as we're  
8 looking to put scale on to our platform, we have  
9 several partnerships with other Blue plans that I  
10 mentioned in my testimony. We believe, and we have  
11 one that over the next couple of years that will  
12 bring another two and a half million or more members  
13 on to the platform. Being able to use the skill set  
14 of people here in Northeastern Pennsylvania, because  
15 they understand our platforms, will allow us to use  
16 that talent and help execute and make this  
17 transition. So we think it's a great opportunity to  
18 use employees that are here. As to David's point,  
19 use the talent and skills that they have in those  
20 sort of centers of excellence type opportunities.

21 MR. HOLMBERG: Does that answer your  
22 question?

23 COMMISSIONER CONSEDINE: Yes. Any  
24 more questions?

25 MS. RANKIN: No.

1 MS. LUCAS: No.

2 COMMISSIONER CONSEDINE: Dr. Capps, I  
3 know you've been waiting very patiently. I would  
4 ask you to wait maybe a little bit more. I think  
5 we've all earned about a ten minute break at this  
6 point, and we'll recess briefly, come back, have you  
7 do your presentation, do any follow up questions we  
8 have for the entire panel, then hopefully break for  
9 lunch and pick up there.

10 So why don't we just take a ten minute  
11 break and return back here at 11:30.

12 Thank you.

13 (The hearing was recessed.)

14 \* \* \*

15 COMMISSIONER CONSEDINE: Welcome back,  
16 everybody. Hopefully you're recaffeinated and ready  
17 to go.

18 Our final presenter for this morning's  
19 panel is Dr. Cory Capps, who will be providing us on  
20 behalf of Highmark sort of an economic competition  
21 analysis as it relates to this transaction.

22 Dr. Capps.

23 DR. CAPPS: Thank you for affording me  
24 this opportunity to speak. As you mentioned, I was  
25 retained by Highmark, and I've analyzed two primary



1 areas. The first is competitive overlap, and the  
2 second is synergies or efficiencies that are likely  
3 to result from the merger. I'll take each one in  
4 turn.

5 Before I go into the details I'll hit  
6 the high points. I have three chief conclusions.  
7 The first is that the merger will not substantially  
8 lessen competition, and the reason for this will  
9 become clear, and that is that Highmark and BCNEPA  
10 really are not competitors today.

11 The second, that the transaction will  
12 result in substantial efficiencies, both with  
13 respect to administrative costs, something that  
14 we've heard about already, as well as technological  
15 capabilities, medical management, and other costs,  
16 and adding quality.

17 And the third is that over time that  
18 these first two categories as benefits accrue, those  
19 benefits are likely to be shared with customers in  
20 the BCNEPA area, that means employers, unions, and  
21 individuals with health insurance coverage.

22 All of these conclusions and opinions  
23 are based on three reports that I've provided to the  
24 Department, which you can reference in more detail.

25 We'll start with competitive overlap.

1 For competition and competitive overlap, I applied  
2 the framework that's contained within Article XIV of  
3 the Pennsylvania Insurance Company Law, as well as  
4 the general economics of competition among health  
5 insurers. In general, with very minor exceptions,  
6 the data shows that Highmark and BCNEPA are not  
7 competitors. What I mean by that is that they do  
8 not sell competing product, similar products, to the  
9 same set of customers. They could sell similar  
10 products in many categories, but not to the same  
11 customers. And that's the sense in which they don't  
12 compete. This in fact is true for both commercial  
13 insurance products, as well as non-commercial  
14 products, meaning products that are funded by the  
15 government, but which private health plans play a  
16 role in administering and providing it.

17 I reached these conclusions really  
18 through a product-by-product analysis. And I'll  
19 just go through each of those products briefly now.

20 The first major category is commercial  
21 insurance products. When it comes to BCNEPA for  
22 that, virtually all of their enrollment for  
23 comprehensive medical insurance fits in one of the  
24 two First Priorities, FPH and FPLIC. When it comes  
25 to analyzing competitive overlap for commercial

1 health insurance, the first important point to keep  
2 in mind is that relevant to a geographic area as  
3 considered is smaller than statewide, local in  
4 nature. And the reason for that is that individuals  
5 who want health care services, that is, enrollees,  
6 or also sometimes patients, value access to local  
7 providers. So employers and then individuals in  
8 Scranton, a health insurer that only has a network  
9 in Pittsburgh would not be of much value or  
10 interest, and vice versa. So that tends to make  
11 health insurance markets local in nature. The  
12 geographic unit I analyzed goes by region for  
13 competitive overlap.

14 For BCNEPA, its main products are FPH  
15 and FPLIC. These two products are actually, or  
16 entities, reflect a joint venture between Highmark  
17 and BCNEPA. Highmark in that venture is the  
18 minority stakeholder with a 40 percent share, and  
19 the remainder is BCNEPA. On a day to day basis  
20 BCNEPA'S staff, personnel and management operates  
21 FPH and FPLIC. So since Highmark is not quite a  
22 silent partner, but it's a quiet partner in that,  
23 BCNEPA has a more operational role.

24 In terms of market share in the 13  
25 county service area, FPH, which is the HMO has about

1       5 percent, and FPLIC, which is the PPO, has about 27  
2       percent. Again, that enrollment reflects a  
3       partnership between Highmark and BCNEPA, not a  
4       competition. It is true that Highmark has  
5       commercially insured enrollees residing in the 13  
6       counties of of Northeastern and North Central  
7       Pennsylvania, however, those lives are almost  
8       entirely attributable to groups headquartered  
9       outside the BCNEPA service area. So those are  
10      customers for which BCNEPA does not compete. So  
11      again, there is no direct competition between  
12      Highmark and BCNEPA with respect to comprehensive  
13      commercial health insurance. And thus there's no  
14      prime facie evidence of a violation of the  
15      competitive standard.

16               There are other commercial insurance  
17      products out there as well, and for each of those  
18      there is also no impact on competition, or no  
19      significant impact. The first would be dental and  
20      vision. BCNEPA does sell these products, for  
21      example if you look at its web page, but in fact  
22      they're Highmark's products. BCNEPA does not design  
23      nor underwrite dental product or vision product. It  
24      just sells Highmark's product. So while the nature  
25      of the partnership is different for these products,

1       it's still the same basic fact pattern, that they're  
2       partners, not competitors, for dental and vision.

3               Stop loss insurance is another  
4       category. In this case BCNEPA product is  
5       relatively, or is very small. And step back a  
6       moment. Stop loss insurance is only financial  
7       insurance. It provides self-funded insurance as  
8       we've heard about in prior remarks with protection  
9       against the risks of very high medical costs. I  
10      think of solid organ transplants, and extreme  
11      neoplates and the like, where care can run into the  
12      millions of dollars. For a self-limited employer  
13      they want to buy protection in the event they have  
14      an unusual number or necessity of such high cost  
15      member. So really stop loss insurance is only  
16      providing financial protection, it's not providing a  
17      network or a local provider. It's just money. And  
18      a hedge against the risk. And so for that reason,  
19      because money is inherently fungible, there is no  
20      inherent localness to this, and the relevant market  
21      we're thinking about competition among stop loss  
22      insurers is really probably nationwide. In fact,  
23      there are international players in this market as  
24      well. And it certainly is no smaller than the  
25      Commonwealth of Pennsylvania. When you look at

1 BCNEPA on a Commonwealth-wide basis, it has about a  
2 .5 percent share, or less, when it comes to stop  
3 loss. So on that basis their presence is very  
4 small, and there's not likely to be any substantial  
5 lessening of competition for stop loss.

6 There are several categories of  
7 insurance where Highmark has a product, and BCNEPA  
8 does not, and thus there's no competition between  
9 them, and no production competition. These are  
10 workers' comp, disability, and long term care  
11 insurance.

12 The next major category is the  
13 noncommercial products, meaning government funded.  
14 The first is Medicaid. Effective March of this year  
15 BCNEPA no longer offers Medicaid products, although  
16 Highmark does. Even before that time, however, when  
17 they both offered Medicaid products, they were not  
18 offering them, they were not offering them in the  
19 same -- offering those products within the same  
20 regions of Pennsylvania. So they were not competing  
21 in the sense of selling the same product, the same  
22 set of customers, they were selling to different  
23 customers. So there was no competition before, and  
24 now BCNEPA is entirely out of Medicaid.

25 With respect to the Children's Health

1 insurance Program, CHIP, they do both sell CHIP  
2 products, however they're selling them within  
3 distinct areas that do not overlap in Pennsylvania.  
4 So for both categories, Medicaid and CHIP, they're  
5 not competitors, and thus the transaction and thus  
6 the transaction will not lessen the competition.

7 The next category of noncommercial  
8 product is Medicare Advantage. In the BCNEPA  
9 service area Highmark offers the Freedom Blue  
10 product, and it does so in partnership with BCNEPA.  
11 On its own BCNEPA does not have a Medicare Advantage  
12 product. So once again there is no competition,  
13 just a partnership.

14 Medicare prescription drug plan  
15 products, these are products that seniors enrolled  
16 in the traditional Medicare program can purchase to  
17 provide coverage for prescription drugs. Highmark  
18 has a single contract with the Center for Medicare  
19 and Medicaid Services that covers Pennsylvania and  
20 West Virginia. BCNEPA, however, does not have a  
21 prescription drug plan product. So once again  
22 there's no competition, and the merger will not  
23 lessen competition.

24 The next category is a little bit  
25 different flavor partnership. This is Medicare

1 Supplemental products, sometimes referred to as  
2 Medigap. These insurances are supplemental  
3 insurance products that seniors in traditional  
4 Medicare can purchase, and it covers some of their  
5 cost sharing obligations to reduce their financial  
6 risk. When it comes to Medigap, BCNEPA is  
7 underwriting, pricing, and managing the hospital  
8 sides of the insurance coverage. Highmark is doing  
9 the same for the professionals, meaning the  
10 physicians, and outpatient side of coverage. Only  
11 when you put those two together do you have a real  
12 Medigap product that a senior would want to  
13 purchase. So they're providing complimentary parts  
14 of a bundle, rather than competing Medigap plans.  
15 For that reason they're again partners in this  
16 occasion, and not competitors, and the merger will  
17 not reduce competition.

18 That encapsulates my competitive  
19 overlap analysis. The next subject is synergies.  
20 And what I mean by synergies are changes for the  
21 better that the merger will make more quickly, more  
22 likely, more effective, or at a lower cost. I  
23 looked at several categories of potential synergies.  
24 The first was administrative costs where we've heard  
25 that BCNEPA does have high administrative costs



1 relative to larger health plans. The second would  
2 be medical costs. These are areas where paying for  
3 value instead of volume offers a potential to lower  
4 costs and improve quality. And then the third would  
5 be quality. In addition to, permeating this entire  
6 discussion are improvements relating to the  
7 infrastructure, that is, that Highmark has more  
8 advanced and modern infrastructure in comparison to  
9 BCNEPA, and that gives Highmark a greater ability to  
10 execute on all three dimensions of synergies.

11 I'll go through each of these in turn  
12 as well. The first, administrative costs. Dating  
13 back to at least 2011, and likely before, BCNEPA has  
14 known and made efforts to address the fact that it  
15 has high administrative costs. To a large part  
16 these high administrative costs are driven by a  
17 small scale relative to entities like Highmark, as  
18 well as national carriers such as United, Cigna,  
19 Aetna, and so on. As I mentioned, they have tried  
20 but not really been able to bring down these  
21 administrative costs. In terms of the gap between  
22 an entity like BCNEPA and Highmark, based on 2013  
23 data on a per member per month basis it costs  
24 Highmark about \$12 less for each member each month  
25 to carry out the business functions of a health plan

1       than it costs BCNEPA. On an annual basis per  
2       enrollee that's over \$140. If you take that cost  
3       differential and apply it to BCNEPA's membership,  
4       you're actually talking about a savings potential of  
5       \$25 million or more per year, just from that being  
6       the savings you would get if Highmark's  
7       administrative cost levels, lower levels, were to  
8       apply to BCNEPA's members overnight. Of course, the  
9       merger and integration will not be an overnight  
10      light switch event. It will take time. So the  
11      administrative cost savings will not accrue  
12      immediately upon the merger, but they will build up,  
13      they're likely to build up as the integration  
14      proceeds, so that BCNEPA'S cost structure will  
15      likely move in the direction of Highmark's. To put  
16      this in context, earlier this morning we heard that  
17      BCNEPA, or FPH and FPLIC is projecting significant  
18      operating losses as far out as they've done a  
19      projection, which is through 2017. Since operating  
20      losses are not sustainable indefinitely, and since  
21      BCNEPA has not been able to reduce its  
22      administrative costs, that leads to the primary  
23      leverage by which they could close out the operating  
24      loss, that would be on the revenue side, that is, a  
25      premium increase. In fact, its loss projections for

1       2015 include some substantial premium increases on  
2       different lines of business. So from BCNEPA's  
3       perspective, with challenges on the cost side, they  
4       would have to make up the gap, the operating loss,  
5       close the operating loss primarily through sharp  
6       premium increases, as they will do in 2015 on their  
7       own. However, given its lower administrative cost  
8       structure, as they integrate, as the integration  
9       proceeds, and Highmark's administrative cost levels  
10      increasingly prevail, there is likely to be a  
11      mixture of premium increases, as well as  
12      administrative cost savings that can be used to  
13      close the operating loss for FPH and FPLIC. In  
14      fact, if about 70 percent of that operating -- I'm  
15      sorry, about 70 to 80 percent of that administrative  
16      cost difference between Highmark and BCNEPA were  
17      closed, operating losses for FPH and FPLIC would  
18      disappear. So the cost savings are substantial in  
19      magnitude in that respect.

20               There are other categories of likely  
21      cost savings as well. One example are the medical  
22      costs for prescription drug pricing. Highmark is  
23      much larger than BCNEPA from the perspective of a  
24      pharmacy benefit managenemt entity. These are the  
25      ones that do the negotiating of pricing, and other

1       other term relating to prescription drugs. Highmark  
2       has much lower costs to serve and it brings more  
3       value to the table. As you would expect on that  
4       basis that Highmark would have more favorable  
5       prescription drug pricing than a smaller entity such  
6       as BCNEPA. I looked at the last round of contracts  
7       for both BCNEPA and Highmark, and I found that that  
8       is indeed the case. In fact, if you look at moving  
9       BCNEPA'S book of business onto Highmark's PBM  
10      contract, with its more favorable prescription drug  
11      pricing, the likely savings are over \$5 million, and  
12      that's each and every year on a recurring basis.

13               The next category of synergy is  
14      medical management. This really reflects the  
15      changing times that we've heard about several times  
16      today. Really one of the key challenges in the  
17      health care system, not just in Pennsylvania, but  
18      nationwide, is for decades the system has done a  
19      good job of rewarding a high volume of care, and  
20      that's not the same thing as rewarding a high value  
21      or cost effective care. I use the term medical  
22      management to describe an array of programs that are  
23      intended to remedy this situation. There are many  
24      varieties of medical management. You might hear  
25      terms like pay-for- performance, pay-for-value,

1 patient-centered medical homes, and accountable care  
2 organizations. All of them really are designed to  
3 realign the system to a more value and more cost  
4 effective medical care than simply a high volume of  
5 care. Both Highmark and BCNEPA do have programs  
6 designed to reward providers for more efficient or  
7 provide higher quality, however, when you stack the  
8 two of them up against each other you will see that  
9 Highmarks are more advanced, more mature, and  
10 provide stronger incentives to providers in  
11 comparison to BCNEPA. Patient-centered medical  
12 homes are good examples of this. A PCMH involves a  
13 group or primary care physicians taking  
14 responsibility for the overall quality and cost of  
15 care of a defined set of patients. Whereas in the  
16 old model, a primary care physician renders an  
17 office visit, and he's paid for it, and repeats.  
18 But the PCMH providers are measured on the basis of  
19 quality metrics, and efficiency metrics, and those  
20 who do well on those metrics stand to gain  
21 financially from that, as well as the potential for  
22 additional patients. And the incentives that  
23 Highmark provides or BCNEPA provides are  
24 significant, such as a primary care physician in a  
25 PCMH can earn up to 20 percent or more in additional

1 payments by performing at the top, versus not doing  
2 so.

3 The pilot, the PCMH pilot of Highmark  
4 was launched in December -- I'm sorry, not December,  
5 but in 2011. That pilot, that initial pilot  
6 achieved some very promising results, including  
7 about a two percent reduction in overall cost of  
8 care, as well as increases across an array of  
9 quality metrics. So just to put that in scale, a  
10 two percent reduction in care costs for FPH and  
11 FPLIC membership would map into about \$16 million  
12 dollars less in medical expenditures, and then the  
13 savings from that category would be in addition to  
14 and separate from administrative costs, and  
15 prescription drug price savings.

16 The program, Highmark's PCMH program  
17 has been popular, and they are nearing, or maybe  
18 just crossed one million patients under the care of  
19 a PCMH, or the Alliance model, which is similar in  
20 nature, but includes hospitals and other providers.

21 Since launching its PCMH program  
22 pilot, Highmark on the basis of that success of the  
23 pilot, as I mentioned, it has been growing rapidly,  
24 adding new providers quarterly. So they have the  
25 initial pilot cohort, and they have new cohorts of

1 physicians joining the program every single quarter  
2 as it expands, and that's bringing new patients  
3 along with it.

4 The later cohorts have not shown a  
5 consistent pattern of overall cost of care decreases  
6 or increases. On that dimension it's just about  
7 flat, and you know, they are newer cohorts, and so  
8 there's still time for that to change. But what  
9 they have done is shown a strong pattern of  
10 increases in quality. So, you know, at a minimum  
11 the effect of the PCMH appears to be improved  
12 quality, without increasing costs, which is a good  
13 thing, and at least solve the problem of longer term  
14 reductions and the cost of care.

15 And in comparison to Highmark,  
16 however, BCNEPA only launched its first PCMH pilot  
17 in November of 2013 to one provider organization,  
18 and then launched another one one in the summer of  
19 2014, and those being so recent there are no  
20 quantitative empirical results on how those models  
21 have faired. So right now BCNEPA is about where  
22 Highmark was several years ago. So in that sense  
23 I'd say Highmakr is more advanced, modern and has  
24 more mature programs for medical management.

25 That leads us to one that is really

1       important, and I think likely and significant,  
2       benefits of the transaction is that it will bring  
3       these types of programs to customers, workers,  
4       employers, unions, et cetera, in the BCNEPA service  
5       area more rapidly and at lower cost than BCNEPA  
6       could achieve on its own.

7               One of the reasons that BCNEPA has  
8       high administrative costs and its medical management  
9       programs are a little bit behind related to  
10      Highmark, I think a lot of this relates to  
11      infrastructure. In comparison to Highmark, BCNEPA's  
12      IT infrastructure is outdated, and it lacks core  
13      functionality. So it's not well-suited to the  
14      accountable care organizations, pay-for-value  
15      programs, PCMHs, disease management programs, which  
16      is one important method by which primary care  
17      physicians and specialists can work together to  
18      lower overall costs of care. It lacks functionality  
19      for patient portals that allow patients to be more  
20      involved in understanding and managing their care.  
21      It has less capability for provider portals by which  
22      providers can identify and act upon drivers of high  
23      costs of care.

24             And then outside of medical management  
25      there are core business functions such as



1       enrollment, billing and actuarial systems that  
2       BCNEPA continues to operate on its older systems,  
3       when it could be executed more efficiently on  
4       Highmark's platform.

5               In terms of ways forward for BCNEPA,  
6       on its own BCNEPA would have to fix its outdated  
7       structure. The independent consultant, not me,  
8       referenced earlier that analyzed BCNEPA's  
9       operations, and future alternatives, concluded that  
10      on its own BCNEPA would have to invest significant  
11      funds to bring its technology up to date, well  
12      over -- likely over 75 million to achieve those  
13      levels of technology that Highmark basically already  
14      has. So that's one of the benefits of the merger is  
15      that it provides a lower cost wave for BCNEPA, for  
16      BCNEPA customers to be able to realize the benefits  
17      from modern advanced infrastructure and technology.

18             To recap, and draw some implications  
19      for consumers, the real advantages of the merger  
20      offers are that it does not involve any substantial,  
21      and in fact very little reduction in competition.  
22      Against that, however, on the benefit side it is  
23      likely to create significant efficiencies related to  
24      administrative costs, medical costs, and quality.  
25      Plus Highmark's greater scale, lower administrative

1 costs, modern infrastructure, management processes,  
2 mature pay-for-value programs, patient-centered  
3 medical homes, better pricing terms for prescription  
4 drugs, prescription drugs. And the likely impact  
5 of that, as I mentioned, is that Highmark will be  
6 more able to close out operating losses for FPH and  
7 FPLIC, not solely through premium increases, but  
8 through a mixture of premium increases, and over  
9 time as efficiencies improve cost savings. And in  
10 addition, because the patient-centered medical homes  
11 and other programs do improve quality, that will  
12 also provide a benefit to consumers because I think,  
13 by its very nature quality improvement means better  
14 for customers.

15 That concludes the prepared remarks.  
16 I'm happy to take any questions at this point.

17 COMMISSIONER CONSEDINE: Thank you  
18 very much, doctor. And again, our thanks to the  
19 entire panel for this morning's presentations.

20 I think what we'll do at this point is  
21 just sort of open it up for questions to the entire  
22 panel, and Dr. Capps, I will certainly have a  
23 question for you, but actually I want to build off  
24 one of your observations, and just as a way of heads  
25 up for Denise and John, this is really ultimately

1       going to be directed at you, but I think you  
2       highlighted one of the historic issues where BCNEPA  
3       has been the high administrative cost and some the  
4       inefficiency associated with the design and the IT  
5       issues, and I guess it takes us back to the  
6       questions we had raised earlier in terms of the  
7       proposed governance structure for the foundation,  
8       the separate foundation, and the separate charity,  
9       and again, the need for two separate entities. I  
10      think you've made a good case as to why, certainly,  
11      we need the charitable form for purposes of that  
12      mission, and for the tax and other reasons. But why  
13      the need then I guess for a separate foundation, and  
14      all of the additional administrative costs, that  
15      potential duplication you have with the governance  
16      models, given against this historic issue associated  
17      with creating inefficiencies, both on an  
18      operational, and I guess now are we duplicating that  
19      with this governance structure going forward, when  
20      at least there's one perspective that having just a  
21      charity maybe a simpler way to go. So I wanted to  
22      give you an opportunity to respond really to the  
23      specific question of, I understand the need for a  
24      separate charity, but why the need for a separate  
25      foundation?

1                   MR. MOSES: Let me say that the  
2 foundation, the scope of the foundation -- can you  
3 hear me now?

4                   COMMISSIONER CONSEDINE: Yes, thank  
5 you.

6                   MR. MOSES: The scope of the  
7 foundation is substantially different than the scope  
8 of the public charity. The public charity has the  
9 obligation of raising funds in order to maintain  
10 its status for the IRS. And we've had some  
11 experience with the Blue Ribbon Foundation. And to  
12 be very frank with you, we react to community needs,  
13 and we give small contributions to various entities  
14 that are health related. And at the end of the day,  
15 Commissioner, there is no real impact on health care  
16 in Northeastern Pennsylvania.

17                   We set up the foundation which will  
18 initially have capital of \$60 million as proposed by  
19 my presentation. We would be required to spend,  
20 which we would not be required to spend under a  
21 public charity, five percent of the earnings. So  
22 let's say \$3 million. With that \$3 million, and  
23 I'll be aware of some of the major needs in our  
24 community, we could design programs, and the board  
25 of that foundation is going to work exceptionally

1 hard because of the application process, the review  
2 of potential, and where the major impact would be.  
3 Now, let me -- I was reluctant to do this, but let  
4 me do this in an effort to be completely frank with  
5 you, without making any commitment to any particular  
6 charities or entities or projects in the community.  
7 We have in Northeastern Pennsylvania Volunteers of  
8 Medicine, which has doctors volunteering, and  
9 dentists volunteer, nurses volunteering, and its  
10 very limited in scope geographically, and to the  
11 number of people it can tailor to. And that's why I  
12 said in my remarks, I insisted that the word  
13 collaboration be in there. If we can collaborate,  
14 if the infrastructure is in place, if we can  
15 collaborate with somebody like Volunteers of  
16 Medicine, and we can expand what they're doing, and  
17 throughout the 13 counties we will have had a real  
18 impact on health care in Northeastern Pennsylvania.

19 Let me draw another program up. I  
20 also sit on the oh the board of the Medical College,  
21 and I know the demands that we have because of an  
22 aging doctor population, and aging physician -- an  
23 aging hospital population, et cetera. And we know  
24 that 55 percent of doctors stay in the community  
25 where they can do their residency. We know that.

1 We also know that we don't have sufficient residency  
2 programs in Northeastern Pennsylvania to -- for  
3 example, in psychiatry, and it's especially now  
4 with the whole Veterans Administration, and those of  
5 you who are following the national news. There are  
6 certain areas where we can expand that. Now, the  
7 Commonwealth Medical College has an infrastructure.  
8 The Wright Center for residency programs has an  
9 infrastructure. We would have the power now as the  
10 foundation to collaborate with the both of them and  
11 say, look, we can now enhance the residency program.  
12 We would be providing a service for the people of  
13 our community where they have to go outside of the  
14 area. Plus it generates a greater opportunity for  
15 the doctors that are doing the residencies here to  
16 stay here.

17 Now, Dr. Scheinman will talk to you  
18 later. He is the Dean of the Medical School, and he  
19 can tell you that he and I have been working day and  
20 night almost with the Wright Center in an effort to  
21 try to collaborate efforts, and, you know, you can't  
22 imagine the impact we would have if we put some of  
23 that money from the foundation behind it. We will  
24 have to spend five percent of what we earn. We will  
25 have to do that. And with that we'll do -- I mean,

1       there are others, expanding into the dental areas,  
2       and providing dental care for the community. There  
3       are so many things where we can have a huge impact  
4       working as a foundation, and collaborating with  
5       entities that already have an infrastructure.

6               Now, I'm not making a commitment for  
7       the residency program or for Volunteers of Medicine.  
8       It's just an idea, and I shared with Mr. Beaser when  
9       we met in August when he said, what kinds of things.  
10      Our board hasn't been formed yet to discuss what we  
11      want to do. But they're the kinds of things. So if  
12      we can isolate a fundraising ability, and taking  
13      care of the little bitty needs of the various  
14      charities on one hand, and on the other hand plan  
15      for bold new ideas to have a real substantial impact  
16      on our community, then we will have served the  
17      people of Northeastern people.

18             And if we can couple with that, which  
19      we have a strategy to do, we shared that with you,  
20      if we can couple with that the growth of AllOne and  
21      bring additional jobs to Northeastern Pennsylvania,  
22      that's a win, win, win for the people of  
23      Northeastern Pennsylvania.

24             COMMISSIONER CONSEDINE: Thank you.  
25      And, again, nobody is questioning the potential

1       benefits to the community that will come from some  
2       of the things that you are talking about, and  
3       obviously the significant funds that might be  
4       available. Again, we'll probably just follow-up in  
5       terms of getting a better understanding of the  
6       dynamics behind the two separate entities, and then  
7       as it relates to the board composition between the  
8       charitable foundation, and the charity itself, and  
9       then the AllOne.

10               But Yen, you may have some specific  
11       questions.

12               MR. MOSES: I thank you for the  
13       opportunity of letting us explain to you what the  
14       dynamics of the board were leading to these  
15       conclusions.

16               MS. LUCAS: Mr. Moses, as a follow-up,  
17       if you could provide the Department with additional  
18       clarification with respect to your earlier response  
19       on the Boston company's board, that that particular  
20       board will be compensated. Do you have the  
21       composition of that board? Will there be overlap in  
22       terms of members?

23               MR. MOSES: We've contemplated what  
24       the composition of the board is, and we have shared  
25       that with the Department, and if you need additional



1 information we certainly will provide it. It will  
2 be the Blue Cross Board members, excluding the  
3 ex-officio members.

4 MS. LUCAS: Thank you. And then with  
5 respect to the level of compensation for that board,  
6 has that been determined yet?

7 MR. MOSES: Well, I'll tell you we  
8 have engaged an expert who has prepared a report and  
9 given us ranges. And I believe we have submitted  
10 that in response to one of the interrogatories to  
11 the Department. If you ask me the specifics of it I  
12 couldn't honestly answer that now. But I do know  
13 that no compensation will be determined or given  
14 without the proper expert reviewing it, which they  
15 have, reviewed the business, how much business we  
16 are going to be doing, the kind of things they do,  
17 and they said, this is the range in which the  
18 compensation should be.

19 MS. LUCAS: Thank you. And we'll  
20 check our records, and if we do not have that  
21 information then we'll certainly follow up with you.

22 MR. MOSES: If you don't have it we'll  
23 be more than happy to provide it to you.

24 MS. LUCAS: Thank you.

25 COMMISSIONER CONSEDINE: Do you have

1 any questions?

2 MS. RANKIN: No.

3 COMMISSIONER CONSEDINE: Dr. Capps,  
4 just a quick question for you in terms of the  
5 competition analysis. And I think most of you  
6 are -- I'm a lawyer, I'm not an economist, but I  
7 slept at a Hilton, so I guess that makes me  
8 something, I'll weigh in on the competition at issue  
9 here.

10 But the assumptions that underlies  
11 most of your presentation were Highmark and BCNEPA  
12 aren't competitors, but, I mean, the historical  
13 backdrop to that is really that's by choice, and an  
14 agreement between the corporate relationships to not  
15 compete. But certainly Highmark has the ability to  
16 compete in this region, just as they have the  
17 ability with their Shield license to compete across  
18 the state, as they do in Central Pennsylvania. And  
19 I would hazard to guess that had BCNEPA gone with a  
20 different partner for this, we may have seen that  
21 competition in this region by Highmark potentially  
22 entering into this region to compete directly, just  
23 as it happened in the central part of the state. So  
24 in performing your competitive analysis, did you  
25 take into account this potential competition theory,

1 and how that may have played out to the benefit or  
2 detriment of this marketplace.

3 DR. CAPPAS: I certainly did give it  
4 consideration. I think there was a couple of points  
5 to address there. One is how attractive the 13  
6 county area is to enter de novo. It has some  
7 economic challenges. And at the same time, United  
8 and other national commercial insurers are already  
9 growing, and Geisinger is expanding. So it may not  
10 be at the top of the list for an insurer like  
11 Highmark to enter de novo.

12 But more importantly I think when you  
13 look at the history and context of their  
14 relationship with BCNEPA, for Highmark to actually  
15 enter on its own and with the 13 counties they  
16 wouldn't be taking a step forward, they would  
17 actually have to take several steps back in order to  
18 disentangle the various arrangements, relationships,  
19 contracts and joint ventures with BCNEPA. And then  
20 substantially move forward. So that makes I think  
21 the prospect of entry more costly, more time  
22 consuming, and thus ultimately less attractive. So  
23 I've seen no business indication that that was a  
24 seriously considered plan. When you look at the  
25 structure of their relationship it's a relatively

1 unlikely step by Highmark. This is more of a legal  
2 question, I think you can get a precise answer on  
3 this, but I think, in fact, they would have to not  
4 enter, they would have to disentangle from FPH and  
5 FPLIC, and then they contractually could not enter  
6 for -- you know, to wait awhile, I think two years  
7 before they could even enter. So I think for  
8 demographic, economic, and historical and  
9 partnership reasons, entry is relatively unlikely.

10 COMMISSIONER CONSEDINE: Thank you.

11 MS. LUCAS: Dr. Capps, certainly a  
12 majority of testimony centered on the benefits in  
13 terms of synergies and scale of the economies to  
14 BCNEPA. I would like to get a better understanding  
15 as to the impact on Highmark. For example, what  
16 scaling economies that you deemed to be beneficial  
17 to BCNEPA that is already currently of benefit to  
18 Highmark, and then as a follow-up to that question,  
19 are there additional synergies or economies of scale  
20 that are -- that Highmark would achieve as a result  
21 of this merger that is not already there for  
22 Highmark?

23 DR. CAPPS: Sure. So with respect to  
24 the first part of the question, I think the benefits  
25 of scale that Highmark has are really evident in its

1 low administrative costs relative to BCNEPA, and the  
2 details and the reports, but also relative to other  
3 Blue, and even non-Blue plans. In fact, Highmark is  
4 used as a vendor by Blue plans -- not all of them,  
5 but multiple Blue plans outside the country --  
6 around the country, not just West Virginia and  
7 Delaware. That's evidence in some sense that  
8 Highmark can produce those business functions more  
9 cheaply than other Blue plans can do it on their  
10 own. That's an example of being efficient, which  
11 they have -- which is a reflection of their scale,  
12 historical developments. The first question, is  
13 there evidence I think that Highmark is more  
14 efficient, those are examples.

15 The second question, what would be the  
16 impact on Highmark from adding BCNEPA. There I  
17 think it will be relative. And what I mean by that,  
18 is adding BCNEPA to Highmark is a relatively small  
19 expansion in the overall membership base. So even  
20 the scale there would be proportionately smaller.  
21 That doesn't mean it would be zero, but they're not  
22 likely to have the significant impact over time that  
23 they will have going in the other direction. So I  
24 think adding a scale will help Highmark, for scale,  
25 in the PBM negotiation context. It will help them

1       get a rate of return on investments as medical  
2       management, and all of the programs. They can apply  
3       those to 5 million people instead of 4.5 roughly, or  
4       4.8 instead of 4.5, et cetera. But you're talking  
5       about a roughly small effect there versus the large  
6       effect when you apply that to BCNEPA.

7               MS. LUCAS: Thank you.

8               COMMISSIONER CONSEDINE: Just give us  
9       a moment here to caucus to make sure we don't have  
10      any final questions.

11              MS. LUCAS: One more follow-up  
12      question, and this would be to Ms. Rice-Johnson.

13              With respect to the economies of  
14      scale, and the efficiencies that you expect to gain  
15      from this merger, how do you expect this to be  
16      passed on to consumers? Will it be passed on by  
17      premium rate, is that where you're expecting the  
18      consumers to see?

19              MS. RICE-JOHNSON: So I'll start, but  
20      I think Denise will be able to add some additional  
21      comment. But we're looking at synergies, so  
22      administrative synergies as well as care cost. Care  
23      cost is important because of the more collaboration  
24      we can do with providers, and seamless products,  
25      pay-for-value type programs will provide care cost

1 savings. So it starts to -- and David talked about  
2 this earlier, it starts to mitigate the rise of care  
3 cost increases.

4 In regard to administrative costs, and  
5 I'd like for Denise to jump in on this, as we see  
6 those efficiencies we can see those translate to how  
7 we charge the customers.

8 MS. CESARE: I would agree. The  
9 benefits to the consumer in terms of how we would  
10 pass on the savings will be the mitigation of the  
11 rate of rising health care cost in the two areas,  
12 better management and utilization of care, quality  
13 outcomes, plus a better value for the dollar in our  
14 sharing of the new relationships with providers, and  
15 then on the administrative side, as we cited  
16 earlier, FPH and FPLIC will incur operating losses,  
17 40 percent of which Highmark is in -- actually to  
18 assist us with. They will be essentially  
19 eliminated. They would translate into premium  
20 increases in order for us to remain viable. And  
21 essentially all of that savings gets passed on to  
22 the consumer.

23 DR. CAPPS: I would add to that, if  
24 FPH and FPLIC have to translate that into premium  
25 increases, continued sharp premium increases, the

1 effect may be to lose enrollment relative to lower  
2 premiums, then you've exacerbated the scale problem  
3 that drives the high administrative cost to begin  
4 with, then it really places BCNEPA between sort of a  
5 rock and a hard place at that point.

6 COMMISSIONER CONSEDINE: Thank you.

7 Well, I think it probably comes as  
8 good news to you all that I think this brings us to  
9 the conclusion of our questions for this morning's  
10 panel. Thank you all for doing such an effective  
11 job and advocating for your respective companies.

12 We will now go into a lunch break. As  
13 I said, we've rearranged the schedule, so we are  
14 going to try to resume right around 1 o'clock, which  
15 I realize shortens lunch by about 15 minutes. And  
16 then we'll kick off with the Department's consultant  
17 presentations at 1, to be followed by the public  
18 comments. And again, we don't have a large number  
19 of public comments signed up, so I think we can move  
20 through the afternoon agenda fairly briskly.

21 But thank you all again, and we'll see  
22 everybody back here at 1 o'clock.

23 (The hearing was adjourned for lunch  
24 recess at 12:21 p.m.)

25 \* \* \*



1 (Afternoon session resuming at  
2 1:05 p.m.)

3 COMMISSIONER CONSEDINE: Good  
4 afternoon everybody. Welcome back. I hope you had  
5 a good lunch, and we will kick right back into our  
6 agenda that we carried over from this morning with a  
7 panel representing the Department's retained experts  
8 in this matter, beginning with Martin Alderson Smith  
9 who is senior managing director of Blackstone.

10 Mr. Smith?

11 MR. SMITH: Thank you very much  
12 indeed, Commissioner.

13 Good afternoon ladies and  
14 gentlemen. My name is Martin Alderson Smith. I am  
15 employed by The Blackstone Group, which is a leading  
16 financial services firm primarily engaged in  
17 financial advisory services and principal  
18 investments. I work in Blackstone's mergers and  
19 acquisitions advisory group, and my title is senior  
20 managing director.

21 Blackstone has been retained to  
22 conduct an independent review for the Pennsylvania  
23 Insurance Department of specific financial aspects  
24 of the Form A application that has been submitted in  
25 connection with the proposed transaction between

1 Blue Cross Blue Shield of Northeastern Pennsylvania,  
2 or BCNEPA, and Highmark Inc.

3 Blackstone has significant  
4 experience advising state insurance regulators on  
5 various life insurance and health insurance  
6 transactions.

7 This has included advising the  
8 Pennsylvania Insurance Department on the previously  
9 proposed consolidation of Highmark and Independence  
10 Blue Cross and the completed affiliation of Highmark  
11 with the West Penn Allegheny Health System; advising  
12 the Delaware Department of Insurance on the  
13 completed affiliation of Blue Cross Blue Shield of  
14 Delaware with Highmark; advising the Maryland  
15 Insurance Administration on the previously proposed  
16 conversion of CareFirst Blue Cross Blue Shield by  
17 WellPoint; advising the New York Public Asset Fund  
18 on the completed sale of WellChoice to WellPoint;  
19 and advising the Washington Office of the Insurance  
20 Commissioner on the previously proposed conversion  
21 and subsequent IPO of Premera Blue Cross.

22 It is worth noting that in  
23 connection with these past transactions Blackstone  
24 has recommended both approving and denying the  
25 proposed transactions.

1                   There are multiple financial  
2           aspects of the BCNEPA-Highmark transaction statutory  
3           criteria applicable to the proposed change of  
4           control of BCNEPA that are within the scope of  
5           Blackstone's engagement.

6                   First, Blackstone is analyzing  
7           whether after the change of control anticipated in  
8           the Form A filing the domestic insurers included in  
9           the Form A filing would be able to satisfy the  
10          requirements for the issuance of a license to write  
11          the line or lines of insurance for which they are  
12          presently licensed.

13                  Second, Blackstone is analyzing  
14          whether the financial condition of the acquiring  
15          party is such as it might jeopardize the financial  
16          stability of the domestic insurers included in the  
17          filing or prejudice the interest of their  
18          policyholders.

19                  Third, Blackstone is analyzing  
20          whether the change of control, if approved, would be  
21          unfair and unreasonable to policyholders of the  
22          domestic insurers included in the filing and not in  
23          the public interest.

24                  Fourth, Blackstone is analyzing  
25          whether the proposed change of control, if approved,

1 is likely to be hazardous or prejudicial to the  
2 insurance-buying public.

3 In connection with our review of  
4 each of the foregoing financial aspects of the  
5 proposed change of control, Blackstone is developing  
6 several analyses, including, but not limited to, the  
7 following:

8 First, Blackstone is analyzing  
9 whether the post-transaction domestic insurance  
10 entities will meet all of the requirements necessary  
11 to write the lines of business that they currently  
12 write. This analysis entails ensuring that each of  
13 the surviving BCNEPA insurance entities will meet  
14 statutory capital, surplus, and net worth  
15 requirements necessary for the issuance of insurance  
16 licenses post-transaction.

17 Second, Blackstone is also  
18 analyzing the financial profile of Highmark Inc. as  
19 the surviving party in this transaction. Our  
20 assessment includes reviewing Highmark's current  
21 financial condition, its risk-based capital levels,  
22 credit ratings, and its forecasted financial  
23 results. We are also analyzing the implications of  
24 a stress or a downside financial case on the future  
25 Highmark-BCNEPA entity.

1                   Third, Blackstone is analyzing  
2     whether the proposed transaction is unfair to  
3     policyholders and not in the public interest and is  
4     likely to be hazardous or prejudicial to the  
5     insurance-buying public. These lines of analysis  
6     include among the following -- among the following  
7     other points:

8                   1. Reviewing BCNEPA's rationale  
9     and process of searching for a long-term partner;

10                  2. Reviewing the plans to  
11     integrate BCNEPA's insurance operations into  
12     Highmark;

13                  3. Reviewing the proposed  
14     governance mechanisms for BCNEPA's advisory board,  
15     the BCNEPA Foundation, and a soon-to-be-formed  
16     public charity;

17                  4. Reviewing BCNEPA's plans to  
18     contribute up to \$90 million out of BCNEPA's  
19     reserves to the BCNEPA foundation or the  
20     soon-to-be-formed public charity; the contribution  
21     of the stock of the subsidiary of BCNEPA's AllOne  
22     Health Resources Corporation to the  
23     soon-to-be-formed public charity, along with the  
24     contribution from Highmark of up to an additional  
25     \$10 million if certain conditions are met.

1                   5. Assessing the potential impact  
2 of any transaction-related compensation or incentive  
3 payments for BCNEPA's management team and/or  
4 BCNEPA's board;

5                   6. Assessing the potential impact  
6 of the transaction on Northeastern Pennsylvania's  
7 community stakeholders, including BCNEPA's  
8 employees;

9                   7. Assessing the impact on local  
10 BCNEPA employment;

11                  8. Reviewing the outcomes of  
12 Highmark's past affiliations with Blue Cross Blue  
13 Shield providers in Delaware and West Virginia; and

14                  9. In conjunction with the  
15 Department's economic advisor, Compass Lexecon,  
16 assessing the potential synergies that may result  
17 from the proposed transaction.

18                  Blackstone's work related to each  
19 of these aspects of the proposed change of control  
20 is currently ongoing, and we continue to work  
21 diligently towards our conclusions. Blackstone's  
22 work will be based on all of the information  
23 provided to the Department by BCNEPA and Highmark,  
24 which we will assume is complete and accurate, and  
25 any public comments submitted to the Department.

1                   In addition, Blackstone has  
2 participated in, and will continue to participate  
3 in, face-to-face meetings and conference calls to  
4 discuss the filing with both BCNEPA and Highmark,  
5 and in discussions with stakeholders, including  
6 insurers, health care service providers, customers,  
7 and community groups.

8                   As part of its engagement  
9 Blackstone will submit to the Department a final  
10 report on all the required work. This report will  
11 address each of the financial aspects of the filing  
12 within the scope of Blackstone's engagement as  
13 previously described.

14                   And that concludes my prepared  
15 comments. Thank you.

16                   COMMISSIONER CONSEDINE: Thank you  
17 very much, Mr. Smith, and for the continued  
18 excellent work of Blackstone on this very important  
19 engagement.

20                   With that, we will turn to our  
21 next expert, Margaret Guerin-Calvert, who is a  
22 senior consultant of Compass Lexecon. Thank you.

23                   MS. GUERIN-CALVERT: Thank you,  
24 Commissioner, and good afternoon. My name is  
25 Margaret Guerin-Calvert. I am a senior consultant

1 and formerly the vice chairman of Compass Lexecon, a  
2 consulting firm that specializes in antitrust  
3 economics and applied microeconomics.

4 I am trained as an industrial  
5 organization economist, which is the branch of  
6 economics that involves the study of firms,  
7 industries, consumer behavior, and pricing. I have  
8 worked as an economist in both public and private  
9 sectors on issues related to competition and  
10 competition policy including a wide variety of  
11 industries and markets since 1979.

12 Compass Lexecon has been retained  
13 by the Pennsylvania Insurance Department through its  
14 counsel, Blank Rome LLP, to conduct an independent  
15 review of the competitive effects and the asserted  
16 benefits to the public, the insurance public, of the  
17 proposed transaction between Blue Cross Blue Shield  
18 of Northeastern Pennsylvania (BCNEPA) and Highmark  
19 Incorporated as set out in the Form A application.

20 Some of our analyses in this  
21 regard will be performed, as you've just heard from  
22 Martin, in conjunction with The Blackstone Group  
23 who, among other issues, will be assessing and is  
24 assessing the financial aspects of the merger  
25 transaction.



1 I and the Compass Lexecon staff  
2 assisting me on this matter have highly specialized  
3 expertise in health care, including work on many  
4 mergers in the hospital, physician, and insurance  
5 sectors, in the economic evaluation of the  
6 implications of those transactions both for  
7 competition and for consumer benefits. We have  
8 significant experience in mergers and acquisitions,  
9 including advising state agencies -- state insurance  
10 agencies or health regulators or antitrust agencies,  
11 as well as providers and insurers, on various health  
12 insurance or health care transactions.

13 This has included advising the  
14 Pennsylvania Insurance Department on the completed  
15 affiliation of the Highmark companies with the West  
16 Penn Allegheny Health System where we submitted a  
17 comprehensive economic report on competition and on  
18 other aspects of the affiliation, including  
19 efficiencies and benefits.

20 Our inquiry and our analyses of  
21 the competitive effects of this merger transaction  
22 will cover the following topic areas that address  
23 the relevant provisions for review by the  
24 Pennsylvania Insurance Department.

25 The first is the evaluation of the

1 competitive effects of the merger. In specific, we  
2 will evaluate whether, and I quote here, the effect  
3 of the merger, consolidation, or other acquisition  
4 of control would be to substantially lessen  
5 competition in insurance in this Commonwealth or  
6 tend to create a monopoly therein.

7 In undertaking this evaluation we  
8 apply standard principles of economic analysis used  
9 by economists in merger analyses, including product  
10 and geographic market definition, which inherently  
11 is the evaluation of the competitive alternatives  
12 available to consumers or employers or others of  
13 those in the public to the merging parties or to  
14 other competitors.

15 A competitive effects analysis  
16 focuses on whether there remain sufficient  
17 competitive alternatives to the merged parties to  
18 constrain price and quality competition or whether  
19 the transaction itself materially or substantially  
20 reduces that competition to the detriment of  
21 consumers. That will be the focus of our inquiry in  
22 that first phase.

23 We are also conducting this  
24 analysis in our evaluation of dynamic factors such  
25 as entry and expansion for the range of insurance

1 products and services offered by Highmark and BCNEPA  
2 and focusing on candidate geographies including, but  
3 not limited to, Northeastern Pennsylvania.

4 Among other things, we are  
5 examining the products and services offered by one  
6 or both of the parties, such as commercial  
7 insurance, Medicaid, and Medicare Advantage. Our  
8 analysis of competition takes into consideration  
9 that Highmark and BCNEPA currently have two  
10 commercial insurance joint ventures for commercial  
11 health insurance products, FPLIC and FPH, in the  
12 BCNEPA service area.

13 In addition to the possible  
14 effects on consumers, we are evaluating the impact,  
15 if any, on the transac -- of the transaction on  
16 contracting for services, including negotiated  
17 contracts with physicians and hospitals.

18 In addition to our independent  
19 analysis that I've just described of the competitive  
20 effects or of other issues, we are taking into  
21 consideration the economic analysis, facts, and data  
22 provided by Highmark's economic expert, Dr. Capps.

23 Our analyses are also informed by  
24 the comments on the public record, including those  
25 offered today or this evening, interviews of

1 industry participants and community stakeholders,  
2 and proprietary as well as public data and  
3 information.

4 The second topic is an evaluation  
5 of whether the merger is likely to be hazardous or  
6 prejudicial to the insurance-buying public. We are  
7 evaluating the benefits and efficiencies,  
8 alternatively put synergies, claimed by Highmark to  
9 arise from the proposed transaction and their impact  
10 on costs or quality of products and services offered  
11 to the consumers.

12 We are focusing particularly on  
13 the claimed benefits for consumers and for the  
14 community from the transaction; that is,  
15 merger-specific benefits, including those identified  
16 by Highmark, BCNEPA, and their economic expert,  
17 Dr. Capps.

18 Among other elements, this inquiry  
19 involves independent assessment of the specific  
20 sources of cost savings as the parties move from the  
21 current joint venture to a fully merged entity and  
22 those that are incremental to the joint venture.

23 We will consider, as appropriate,  
24 information on the rationale for the transaction,  
25 integration in other plans, past affiliations and

1     their results, and evidence on the sources of  
2     potential benefits and potential efficiencies.

3             Also as part of this particular  
4     topic we have been asked to assess whether the  
5     merger raises other competitive issues that may not  
6     be captured in our assessment of the merger, such as  
7     the likelihood that the merger could result or would  
8     result in higher costs for health care and  
9     ultimately for insurance in Western Pennsylvania or  
10    in any part of Pennsylvania.

11            Compass Lexecon's analysis of  
12    these issues is ongoing, and we are working toward  
13    our conclusions which will be provided to the  
14    Department in the form of an expert report.

15            Our review of the merger will make  
16    use of data, documents, and other information  
17    provided to the Pennsylvania Insurance Department by  
18    the applicants and the public; discussions with  
19    Highmark, BCNEPA, and with others; analyses provided  
20    by their experts and others; relevant analyses and  
21    information from The Blackstone Group, and our own  
22    analysis of these issues.

23            That concludes my preliminary  
24    remarks.

25            COMMISSIONER CONSEDINE:   Thank you

1       very much for your report.

2                       And with respect to both  
3       Blackstone and Compass Lexecon, as we'll be alluding  
4       to in our wrap-up, both of our consultants will be  
5       submitting draft -- reports that will be put into  
6       the public record in the very near future. And  
7       again those will be a significant part of the public  
8       record, and we'll certainly encourage all interested  
9       parties to review those once they are posted.

10                      With that, I believe it  
11       concludes -- it does conclude our portion of our  
12       experts' reports.

13                      At this point we are ready to  
14       transition into the public comment period, which, as  
15       I mentioned this morning, is a critical component to  
16       the Department's review process. We are very happy  
17       that we have folks here who have taken time out of  
18       their schedules to provide us with their insights  
19       and views on this very important transaction, and we  
20       look forward to their comments.

21                      I would ask Yen before we just get  
22       into the first session, maybe go over the ground  
23       rules one more time just for the benefit of the  
24       folks who were not here this morning.

25                      MS. LUCAS: Thank you,

1 Commissioner.

2 Before we move into this public  
3 comment portion of our agenda, I'd like to just take  
4 a few moments to remind folks of the ground rules  
5 for this section.

6 I will be calling each commenter  
7 to the front table when it's that individual's turn  
8 to present, and at that time I will also ask the  
9 next speaker to follow and sit behind the  
10 commenter's table. When speaking, please indicate  
11 if you are speaking on your behalf. If you are  
12 representing an organization, please indicate your  
13 capacity in speaking for that organization.

14 Your remarks should be specific  
15 and relate to the Form A filing that is before the  
16 Department. In order to make sure that all  
17 presenters have adequate time, we ask that you keep  
18 your comments to about ten minutes.

19 Because of the informal nature of  
20 today's proceeding, there will be no sworn  
21 testimony. Further, cross examination or  
22 interrogation of the speakers will not be permitted.  
23 However, you may pose questions to Highmark or NEPA  
24 during your presentation.

25 Please note that today's hearing

1 is also being web-streamed, so when you speak,  
2 please speak directly into the microphone and  
3 identify yourself. The web stream will be available  
4 on the Department's website. And of course  
5 following today's hearing the Department will  
6 require written responses to the questions raised by  
7 the Department and by the public from the applicant.  
8 Thank you.

9 COMMISSIONER CONSEDINE: Thank  
10 you. With that, I think we're ready to call our  
11 first set of public commenters.

12 MS. LUCAS: Yes. I believe our  
13 first speaker is Steven Scheinman, and Danna Ward is  
14 next on deck. Thank you.

15 DR. SCHEINMAN: Thank you very  
16 much. I'm Dr. Steven Scheinman. I am the president  
17 and dean of The Commonwealth Medical College, and I  
18 am here representing the college. I'm very pleased  
19 to have this opportunity to comment on the proposed  
20 merger between Blue Cross of Northeastern  
21 Pennsylvania and Highmark Incorporated.

22 The Commonwealth Medical College  
23 (TCMC) is a new fully accredited independent  
24 allopathic medical school. We admitted our first  
25 students in 2009. TCMC was founded through a



1 grassroots effort by the community of Northeastern  
2 Pennsylvania.

3 It is distinguished by the  
4 obligation in its mission, explicit and actively  
5 pursued by the college, to serve this region and its  
6 communities by training physicians who will remain  
7 here to practice and by working with partners in the  
8 community to improve health care in the region.

9 TCMC is proud of the success of  
10 our curriculum, which is innovative,  
11 community-oriented, and patient-centered and which  
12 emphasizes continuity in clinical experiences.

13 We are particularly proud of the  
14 success of our first several classes of students as  
15 reflected in a range of measures, such as board  
16 scores, excellent residency matches, and high  
17 quality of performance in residency training. This  
18 success is validated by our having received full  
19 accreditation from both the LCME and the Middle  
20 States Commission on Higher Education.

21 From our founding, and at every  
22 critical stage in our development, Blue Cross of  
23 Northeastern Pennsylvania has been stalwart in its  
24 support of the college, as Mr. Moses noted with  
25 justifiable pride this morning.

1                   The financial support from Blue  
2   Cross of Northeastern Pennsylvania has been critical  
3   in the launching and the continued success of the  
4   college, and this support has come with no  
5   constraints upon my ability as dean to develop  
6   educational initiatives and partnerships with  
7   clinical entities and systems throughout the region.

8                   Our close relationship with Blue  
9   Cross has also made it possible for us to develop  
10   initiatives with clinical partners on issues such as  
11   coordination of care. No other medical school in  
12   the country has such a close relationship with the  
13   region's major health carrier, and it has been of  
14   great value to the college.

15                  I share the enthusiasm of others  
16   who view the proposed merger as a good thing for the  
17   customers and for the people of this region.  
18   Highmark has the resources and the innovative  
19   leadership to bring a new level of service and  
20   opportunities to the community.

21                  I am particularly encouraged by  
22   the specific language in the agreement that  
23   obligates the merged entity to continue the historic  
24   corporate mission of BCNEPA in benefit to the  
25   13-county region it has served, and specifically to

1 cooperate with The Commonwealth Medical College in  
2 endeavors to support the ongoing success of The  
3 Commonwealth Medical College.

4 I have had the opportunity to  
5 spend time with leaders of Highmark discussing TCMC  
6 and our community-based curriculum and programs. It  
7 is clear to me that they appreciate the college's  
8 mission, our various initiatives aimed at improving  
9 community health, and our focus on replenishing the  
10 physician workforce. They have expressed to me  
11 their support of our mission, eagerness to  
12 collaborate on programs, and intent to remain  
13 engaged in promoting our success.

14 I am also encouraged that the  
15 proposed agreement provides for the establishment of  
16 the AllOne Foundation with substantial assets.  
17 While we cannot presume how the resources of this  
18 foundation will be used, the agreement is specific  
19 in stipulating that they be directed to uses that  
20 would benefit the health of the region and that the  
21 board making these decisions would be from this  
22 region and members of this community.

23 Thus, I am excited about the  
24 proposed merger and support it, as it's in the best  
25 interest of the policyholders, the community of

1 Northeastern Pennsylvania, and The Commonwealth  
2 Medical College. Thank you.

3 COMMISSIONER CONSEDINE: Thank you  
4 very much.

5 MS. LUCAS: Our next speaker is  
6 Danna Ward, and on deck is Steven Johnson.

7 MS. WARD: Thank you. My name is  
8 Danna Ward. I'm here representing Vigon  
9 International. I am the office manager and quality  
10 system manager at Vigon International in East  
11 Stroudsburg, Pennsylvania, and among my  
12 responsibilities there is human resources, which  
13 includes benefits administration and sourcing  
14 benefits that are cost-effective as well as suitable  
15 for our employee health management.

16 Vigon is a privately owned  
17 manufacturer and supplier of high-quality flavor and  
18 fragrance ingredients which currently employs 66  
19 people, most coming from Monroe, Pike, and  
20 Northampton Counties. The company has been  
21 recognized as a leading small business in  
22 Pennsylvania and has been awarded the Governor's  
23 Impact Award by Governor Corbett this year.

24 We also have been recognized as  
25 one of the best places to work in PA, this being our

1 fourth year, 2014, to have received this award,  
2 which speaks towards our employees' satisfaction and  
3 what we have been able to provide to enhance the  
4 employee experience at Vigon.

5 One of the reasons for the  
6 company's success is that the leadership understands  
7 that to be competitive you need to have an effective  
8 and productive workforce, and there's no doubt that  
9 if employees are healthier, there will be less  
10 absenteeism and greater productivity. Healthier  
11 employees also mean lower health care costs.

12 In partnership with Blue Cross of  
13 Northeastern Pennsylvania, which has been Vigon's  
14 health insurer for 25 years, our company has  
15 developed wellness programs to help our employees  
16 stay healthy. All of our employees at least  
17 participate in some of those activities.

18 These programs include cardiac  
19 risk assessments, skin cancer screenings, breast  
20 cancer assessments, as well as programs to help  
21 employees stop smoking, lose weight, change their  
22 eating habits, and also exercise habits, all of  
23 which are managed with support of health coaches  
24 from Blue Cross.

25 As Vigon's employee benefits

1 administrator and also the wellness program  
2 chairperson, I have seen the positive effect that  
3 these programs have on our employees' fitness,  
4 morale, and work performance. I also have  
5 discovered that we can have some fun with these  
6 programs, with employees competing individually or  
7 as teams.

8 I believe this is having an effect  
9 on our health insurance premiums because it is  
10 helping our employees stay healthier. There is a  
11 correlation between what the employees are doing to  
12 manage their health and wellness and how much our  
13 company is paying to cover them. Vigon's  
14 partnership with Blue Cross of Northeastern  
15 Pennsylvania is helping make this happen.

16 Our satisfaction with Blue Cross  
17 is based on more than that. Blue Cross also has a  
18 large network of doctors and hospitals, and I have  
19 been pleased with the broad choice of doctors and  
20 hospitals that our employees can select from in the  
21 Blue Cross system. When we look at the plans to  
22 offer this for the year, it's key to the success and  
23 the process of the selection.

24 I'm encouraged that the merger  
25 between Blue Cross and Highmark will not only allow

1 the merged companies to continue the service but  
2 also to build on it. I understand that Highmark has  
3 the same commitment to health and wellness programs  
4 as Blue Cross, and like Blue Cross, Highmark works  
5 with the employees to help them develop wellness  
6 programs that encourage their employees to improve  
7 their health, lower their risk of disease, and  
8 manage chronic health conditions. But as one of the  
9 largest insurers in the country, Highmark will be  
10 able to do this with greater resources and more  
11 advanced technologies over time.

12 The same is true for the provider  
13 network which will expand the current Blue Cross of  
14 Northeastern Pennsylvania service area to cover most  
15 of the rest of Pennsylvania which is already  
16 serviced by Highmark. That's important to companies  
17 like ours since some of our workers live outside of  
18 the Blue Cross region in the Lehigh Valley.

19 So as both benefits administrator  
20 for Vigon and also an individual member of the  
21 Northeastern Pennsylvania community, I believe that  
22 the merger will not only expand but improve on the  
23 quality of products and service currently provided.  
24 Thank you.

25 COMMISSIONER CONSEDINE: Thanks

1 for your comments, Danna, and thank you for coming  
2 today.

3 MS. LUCAS: Our next speaker is  
4 Steven Johnson, and Samuel Weber is on deck.

5 MR. JOHNSON: Good afternoon. My  
6 name is Steve Johnson, and let me begin by saying  
7 that I am not the deputy commissioner. Although  
8 I've never met him, I am certain he is very bright  
9 and has a good sense of humor, so please send him my  
10 regards.

11 Currently I serve as the chairman  
12 of the Board of Directors for a hospital association  
13 and health system in Pennsylvania. I am not  
14 speaking on their behalf, however, but I will  
15 comment on their behalf that they are officially  
16 neutral in this particular transaction.

17 I am, on the other hand, speaking  
18 on behalf of Susquehanna Health. I am the president  
19 and CEO there. It is a four-hospital system located  
20 in North Central Pennsylvania with a longstanding  
21 tradition of providing high-quality health care and  
22 promoting health and wellness across our region.

23 The Susquehanna Health network  
24 includes Divine Providence Hospital, Muncy Valley  
25 Hospital, Soldiers & Sailors Hospital, and the



1 Williamsport Regional Medical Center. We employ 135  
2 physicians and 60 advanced practice professionals in  
3 Lycoming, Clinton, and Tioga Counties. We also own  
4 and operate two skilled nursing facilities and a  
5 comprehensive physical medicine and rehabilitation  
6 center.

7 Much of our service area is  
8 contained within Blue Cross NEPA's western region  
9 where our payor/provider partnership has benefited  
10 citizens from the region for decades, and our  
11 contracts are developed without the burden of  
12 competitive conflicts of interest.

13 I'm here to voice our support for  
14 the merger of Blue Cross NEPA and Highmark because  
15 Susquehanna Health believes it will benefit the  
16 health and well-being of people across North Central  
17 Pennsylvania. More specifically, we believe the  
18 proposed merger can actually strengthen the already  
19 successful regional collaboration we enjoy with Blue  
20 Cross NEPA today.

21 I'd like to share three examples  
22 of how Blue Cross NEPA and Susquehanna Health have  
23 partnered to achieve this triple aim of improving  
24 the health of our regional population, improving the  
25 experience of individual consumers, and reducing

1 overall cost.

2                   The first example is the  
3 patient-centered medical home launched by Blue Cross  
4 NEPA and Susquehanna Health in 2013. Preliminary  
5 indicators show that improvements across 15 unique  
6 national quality measures, including childhood  
7 immunization rates, breast cancer screening rates,  
8 appropriate treatment of adults with bronchitis, and  
9 several diabetes-related measures are already  
10 improving.

11                   Under this patient-centered  
12 medical home model every patient has an ongoing  
13 relationship with a personal physician who leads a  
14 team of health care professionals who are  
15 accountable for all of that patient's health care  
16 needs. That patient's care is based on best  
17 clinical practices, supported by the appropriate  
18 clinical decision-making tools, and carefully  
19 coordinated across various specialties and service  
20 locations. The model also emphasizes shared  
21 decision-making with our patients, their families,  
22 and their insurance company.

23                   Under this pilot program Blue  
24 Cross NEPA is working with our primary-care  
25 physicians to make necessary office and technology

1 improvements as well as better integrating and  
2 facilitating each patient's unique coordination  
3 objectives.

4 In addition, care coordinators in  
5 the pilot project are working with all of  
6 Susquehanna Health's patients regardless of their  
7 insurance coverage, so this program stands to  
8 benefit those beyond just the Blue Cross NEPA  
9 insured lives.

10 Our physicians and staff have  
11 embraced these changes, and it's showing in how we  
12 serve our patients. Patients now have access to  
13 nurses whom they can call any time of the day or  
14 night. Those nurses are able immediately to access  
15 our patients' medical records and respond  
16 accordingly.

17 Patients can also access their own  
18 medical information and test results and provide  
19 messages to their provider team and make  
20 appointments from their home computers through a  
21 confidential online patient portal.

22 And this is just the beginning.  
23 We believe that the patient-centered medical home  
24 model is an important step in transforming regional  
25 health delivery to be more accountable, responsive,

1 and efficient. This triple aim of the Susquehanna  
2 Health-Blue Cross NEPA partnership is building and  
3 improving patients' health, improving their  
4 experiences, and reducing overall cost.

5 We're pleased also with  
6 Highmark's -- that Highmark shares Blue Cross NEPA's  
7 commitment and desire to develop these and other  
8 innovative models, reflecting both regional factors  
9 and financial health of local providers.

10 We also recognize that Highmark  
11 has the financial resources, advanced technology,  
12 and expertise to develop and expand this and similar  
13 care models to both support and encourage  
14 high-quality care, including cost-effective  
15 preventative care, care management, and other  
16 high-quality low-cost outcomes-based care delivery  
17 models.

18 This is our -- and this is only  
19 our most recent collaboration. Since 2007  
20 Susquehanna Health and Blue Cross NEPA have jointly  
21 operated a health and wellness storefront called The  
22 LifeCenter. Our LifeCenter clinical staff conduct  
23 regular health screenings, complete individual  
24 evaluations of risk factors for conditions such as  
25 strokes and colon cancer, and present educational

1 seminars on heart disease, diabetes, asthma, health  
2 promotion, and lifetime fitness, and so on.

3 The LifeCenter is another example  
4 of how our partnership for prevention with Blue  
5 Cross NEPA helps fulfill our mission of improving  
6 the health status of those we serve. We are pleased  
7 with Highmark's financial commitment to sustain  
8 improvements in community health in the Blue Cross  
9 NEPA service area while being responsive to local  
10 community factors such as those identified in their  
11 filing documents.

12 This focus on partnering for  
13 health and wellness is notable in the third  
14 partnership example, and that is Susquehanna  
15 Health's own employees. Although we are  
16 self-insured, we have partnered with Blue Cross NEPA  
17 to serve as our third-party administrator and for  
18 their AllOne team to serve as our employee health  
19 and wellness advisors.

20 Their expertise has been  
21 instrumental in helping us improve the health status  
22 of our own employees while reducing our own related  
23 operating cost.

24 We are pleased with Highmark --  
25 excuse me. We are pleased that Highmark is

1 committed to maintaining a regional presence to  
2 serve its subscribers and to support strong provider  
3 relations within the entire Blue Cross NEPA service  
4 area.

5 We are confident Highmark will not  
6 only continue Blue Cross NEPA's collaborative  
7 relationship with Susquehanna Health, reflecting  
8 regional needs and desires, but that it will also  
9 seek ways to provide additional productive benefit  
10 for our own staff as well as those of other  
11 employers and citizens across our region while  
12 supporting the financial health not only of  
13 Susquehanna but providers generally.

14 In addition to the opportunities  
15 to continue innovative care delivery activities, the  
16 proposed merger can also help streamline and  
17 coordinate care for many of our patients who do not  
18 currently live within the Blue Cross NEPA service  
19 area. Our facilities are located in three counties  
20 on the western portion of the Blue Cross NEPA  
21 13-county service area: Lycoming County, Clinton  
22 County, and Tioga County.

23 However, many of our patients come  
24 from other Central Pennsylvania counties that are  
25 outside Blue Cross NEPA's 13-county region but which

1 are currently serviced by Highmark. We expect this  
2 merger to help streamline contractual arrangements  
3 and simplify relationships for health care providers  
4 like ours that currently serve patients in both Blue  
5 Cross NEPA and Highmark regions. Eliminating these  
6 artificial barriers will make it easier to serve our  
7 patients regardless of where they live.

8 Finally, because of Highmark and  
9 Blue Cross NEPA's long-time working relationship, we  
10 anticipate that the consolidation of their  
11 operations in the proposed merger will be  
12 considerably less disruptive than a merger with a  
13 non-Blue Cross insurance company.

14 In summary, first, our experience  
15 with Blue Cross NEPA can best be characterized by  
16 mutual accountability and collaborative synergy,  
17 helping to ensure that together we can and do  
18 deliver higher quality, more compassionate, more  
19 accessible, and more cost-effective services to  
20 patients across our region.

21 Second, our knowledge of Highmark  
22 suggests they will both sustain and expand these  
23 initiatives, reflecting regional needs and  
24 differences.

25 And third, by thoughtfully

1     engaging the provider community in a cooperative  
2     fashion and effectively deploying their expanded  
3     capabilities and resources, Highmark will be able to  
4     raise the collective performance of the health care  
5     industry in our region, demonstrating that they can  
6     support the financial integrity of their health care  
7     provider partners, and population health status can  
8     be improved, consumer experience can be better, and  
9     overall collective cost of health care to the  
10    hundreds of thousands of people who live and work in  
11    our region can be reduced.

12                     Thank you for allowing me the  
13    opportunity to provide this statement on behalf of  
14    Susquehanna Health and the many people we serve  
15    throughout North Central Pennsylvania. Thank you.

16                     COMMISSIONER CONSEDINE: Thank you  
17    very much, Steven, and we appreciate you coming  
18    today.

19                     MS. LUCAS: Our next speaker is  
20    Samuel Weber, and on deck is Scott Byers.

21                     MR. WEBER: Good afternoon.

22                     COMMISSIONER CONSEDINE: Good  
23    afternoon.

24                     MR. WEBER: I'm Sam Weber, and I  
25    am the president of the Chambers of Commerce Service



1 Corporation.

2 And before I start, I have been  
3 told repeatedly that my voice is somewhat affected  
4 by my cold. I thought coming here to the discussion  
5 of improving the health system would be one way for  
6 me to hopefully overcome a slight cold.

7 But very seriously, I am speaking  
8 for our corporation, and I think you will see as I  
9 go through my testimony that our primary focus is so  
10 strongly supportive of this merger because of the  
11 impact that it has on the employers and employees  
12 that participate inside our program.

13 CCSC, the Chambers of Commerce  
14 Service Corporation -- I'll refer to it as CCSC.  
15 It's easier for me to say.

16 CCSC is a Pennsylvania for-profit  
17 corporation founded in 1992 by 22 shareholders at  
18 our chambers. And I want to be very clear about  
19 that. We are -- there are no private shareholders.  
20 We are exclusively owned by chambers of commerce in  
21 the state of Pennsylvania. Our purpose then, and  
22 now, has been to provide value-added products and  
23 services to our chamber partners and their members  
24 that encourage and maintain chamber membership.

25 CCSC currently distributes these

1 products through 90 chambers in the western,  
2 central, and northeastern portions of Pennsylvania.  
3 CCSC's current portfolio of products includes  
4 employee benefits, electric and gas aggregation, and  
5 a property and casualty dividend program. We have  
6 over 10,000 chamber member businesses that take  
7 advantage of our product offerings.

8 We've had an exclusive  
9 relationship providing health insurance products  
10 with Highmark in Western Pennsylvania since our  
11 founding in 1992. We have enjoyed that same  
12 relationship with NEPA Blue Cross since 2001 and  
13 with Highmark Blue Cross and Blue Shield since 2002.

14 We believe that our long-term  
15 relationships with both Highmark and NEPA Blue  
16 Cross, Blue Cross, provide a unique perspective on  
17 the issues driving the proposed merger and the need  
18 for the merger to move forward expeditiously. Most  
19 importantly, we understand the sensitivity in  
20 Northeastern and North Central Pennsylvania  
21 communities on the local impact that this merger  
22 will create.

23 CCSC has, due in large part to the  
24 diversity of the communities that make up our  
25 chamber partners, a bottom-up versus top-down

1     mentality in the way to try to conduct our business.  
2     My focus today will be on the benefit that we  
3     believe the merger will create for employees and  
4     their -- the employers and their employees that will  
5     be provided health insurance through the merger.

6                 I think, first and foremost, we  
7     believe that the merger is positively going to  
8     affect the administrative expense associated with  
9     the delivery of health care services. We believe  
10    Highmark brings the scale and financial capital  
11    necessary to address the current and future impact  
12    of the regulatory environment on the cost component  
13    in Northeastern and North Central Pennsylvania.

14                Highmark has had a longstanding  
15    relationship with NEPA Blue Cross insurance products  
16    and with data processing and claims management.  
17    Administrative dollar savings created by the merger  
18    can be directly invested in improving the quality of  
19    the current product offerings and be used to develop  
20    new customer-focused products and services.

21                Second, NEPA Blue Cross and  
22    Highmark have demonstrated through their existing  
23    collaborative work that they share the core value of  
24    a community focus on product choice, wellness, and  
25    comprehensive health management. We believe the

1     increased resources that the merger will bring to  
2     the NEPA region will enhance the potential for the  
3     deployment of new health care products and services;  
4     and we absolutely believe that the merger assures  
5     the continuity of services with minimal disruption  
6     to all consumers: employers and employees,  
7     physicians and hospitals; and we believe that  
8     Highmark's record, not just with NEPA Blue Cross but  
9     in Delaware and in West Virginia . . .

10                     And I would add parenthetically,  
11     even though we are not currently operating a  
12     program, we are in the process of developing a  
13     program with chambers in West Virginia, and we have  
14     been very, very much involved and very interested in  
15     the comments of those chambers in terms of the  
16     impact that that merger has had there; and we think  
17     that that long-term community commitment should  
18     provide some comfort to the folks of Northeastern  
19     Pennsylvania in regard to the impact of the merger.

20                     Third, we've always been an  
21     advocate for new products and services that increase  
22     employer choice and flexibility in meeting their  
23     employees' and families' health care needs. The  
24     merger will provide significant financial --  
25     financial and technological assets and enhance the

1 probability that new products focused on assuring  
2 appropriate care, measurable qualitative outcomes,  
3 and increased consumer transparency come to  
4 communities in Central Pennsylvania.

5 And I can give you a prime example  
6 just from a selfish perspective. Schuylkill and  
7 Columbia-Montour Counties in many regards are  
8 thought of as part of the Northeastern Pennsylvania  
9 community in all -- almost every aspect but health  
10 care because of the Interstate 80 line of  
11 demarcation, and I think this is just an absolute  
12 comparison -- or an example of how those employers  
13 will now be able to enjoy the seamless health care  
14 products that we offer, not just through CCSC but  
15 through our partners.

16 We are pleased that Highmark has  
17 made commendable commitments to preserve employment  
18 and provide a voice in decisions related to the NEPA  
19 Blue Cross service area. CCSC does think, however,  
20 that two actions by Highmark would significantly  
21 increase the effectiveness of the job-related  
22 commitments and strengthen the belief that the  
23 merged organizations will operate in a manner that  
24 protects the interests of NEPA Blue Cross consumers  
25 and the communities they reside in.

1                   We believe that Highmark should  
2 immediately began work with stakeholders in the NEPA  
3 Blue Cross service area to identify the  
4 opportunities that Mr. Holmberg talked about in his  
5 remarks, and I guess demonstrates why he's the CEO  
6 of Highmark and I'm here testifying on their behalf  
7 today. That if there are significant values that  
8 can be accretive to the operation of Highmark's  
9 corporation, if they exist in the Northeast Region,  
10 then there is every -- there is every chance that  
11 they will become the service provider in my mind.

12                   We think it's extremely important  
13 that those qualitative and quantitative jobs are  
14 addressed and remain in place in this region. We're  
15 very, very comfortable that the macroeconomic issues  
16 make this merger a necessity, but we also believe  
17 that an unquestioned commitment to local economic  
18 vitality and ongoing regional input to the new  
19 enterprise will be beneficial to its short- and  
20 long-term success.

21                   And I do also want to note that it  
22 is very positive that -- that the financial  
23 commitment has been made to the foundation. I would  
24 also like to suggest that the requirements that are  
25 necessary to add the additional \$10 million in

1 capital to the community foundation be outlined  
2 because I think it would be helpful for all of us to  
3 put our shoulder to the wheel and work to make that  
4 a reality.

5 And finally, in the current health  
6 care landscape we believe the merger is necessary.  
7 It will benefit health care consumers in the NEPA  
8 Blue Cross territory. We think that the  
9 collaborative work that's been done in the past will  
10 lessen any potential disruption. We absolutely  
11 believe that it is a better -- it is the best  
12 choice, and we think that the resources and  
13 innovative health care offerings it can bring to the  
14 table are going to be a positive economic impact on  
15 the Northeast Region.

16 I would like to say I've worked  
17 with a number of the folks that have spoken today  
18 from Highmark for over 20 years, and I can say  
19 personally and also professionally that even though  
20 we are based in Pittsburgh, we spend a lot of time  
21 in this region. I've been here over 45 days this  
22 year and for the previous 15 years of our existence  
23 here in the Northeast. I am confident and  
24 comfortable that Highmark will be the community  
25 partner that they promise. Thank you.

1 COMMISSIONER CONSEDINE: Thank you  
2 for your comments and for coming.

3 MS. LUCAS: Our next speaker is  
4 Scott Byers, and Larry West is on deck.

5 MR. BYERS: Good afternoon. My  
6 name is Scott Byers. I'm the president and CEO of  
7 EDM Americas, an information management company, a  
8 leading employer in Northeastern Pennsylvania as  
9 well as a customer and vendor of Blue Cross NEPA.

10 Thank you for holding this hearing  
11 to hear from the people of this region about the  
12 proposed merger of Blue Cross of Northeastern  
13 Pennsylvania and Highmark. I'm pleased to be here  
14 today to voice my support for the proposed merger.

15 EDM makes companies like Blue  
16 Cross NEPA more efficient, effective, and compliant  
17 by managing their data and information streams.  
18 Managing the flow of information and documents is  
19 our focus every day, which frees up our clients to  
20 focus on their noncritical items -- or  
21 mission-critical items.

22 Within the last year our company,  
23 formerly Diversified Information Technologies,  
24 merged into the EDM Group, an international provider  
25 of outsourced information management services, to



1       create EDM Americas.

2                       In making that decision, we  
3       recognized the benefits of affiliating with a larger  
4       company so that we had the capital and support to  
5       become a more cost-effective business that delivers  
6       greater value to our customers. Integrating with  
7       the EDM Group expanded the company's access to  
8       additional resources and systems for best practices  
9       to enhance our clients' experience and provide  
10      capital to fuel our growth in the U.S.

11                     Access to additional resources,  
12      technology, and systems are equally important for  
13      health plans in today's competitive health care  
14      marketplace. Health insurance must -- health  
15      insurers must provide a comprehensive portfolio of  
16      insurance services to their business customers and  
17      their employees and must be able to deliver those  
18      services efficiently, so I recognize the importance  
19      of Blue Cross NEPA affiliating with a larger  
20      insurer.

21                     A large company like Highmark has  
22      the scale, resources, and capital to operate more  
23      efficiently, invest in new technologies and best  
24      practices, and develop a wider range of products and  
25      services for employers and their workers.

1 Combining these strengths with  
2 Blue Cross NEPA's effective customer service  
3 capacity and reputation in the regional market will  
4 produce a stronger company that has a deeper  
5 offering of products, services, and capabilities for  
6 its customers that will benefit companies in this  
7 region as well as their employees.

8 Our company has maintained a  
9 strong relationship with Blue Cross NEPA, and Blue  
10 Cross NEPA has always been a customer-focused,  
11 forward-looking organization. I'm confident that  
12 this will continue under Highmark if the proposed  
13 merger is approved.

14 Thank you for this opportunity to  
15 present my comments as your agency considers the  
16 transaction.

17 COMMISSIONER CONSEDINE: Thank you  
18 for your comments, Scott, and for coming today.

19 MS. LUCAS: And our last speaker  
20 for the day session is Larry West.

21 MR. WEST: Good afternoon ladies  
22 and gentlemen. My name is Larry West. I serve as  
23 regional director for State Senator John Blake who  
24 is the senator for the 22nd District in the  
25 Pennsylvania Senate. The 22nd District encompasses

1 all of Lackawanna County and parts of Luzerne and  
2 Monroe.

3 So if you'll indulge me for a  
4 minute. I believe we've provided a copy of the  
5 Senator's remarks, so if I could just read it into  
6 the record.

7 COMMISSIONER CONSEDINE: Absolutely.

8 MR. WEST: The letter is addressed  
9 to the Insurance Department.

10 The Insurance Department is  
11 currently seeking comments from the public under the  
12 state Insurance Holding Companies Act, further known  
13 as the Act, concerning a proposed merger involving  
14 Blue Cross of Northeastern Pennsylvania, further  
15 known as BCNEPA, and Highmark. I am glad to add my  
16 voice to the chorus of individuals and stakeholders  
17 who endorse the proposed merger.

18 In reviewing a transaction as  
19 significant as the one being proposed, the Act  
20 requires the Insurance Department to weigh several  
21 factors, including the impact of the merger on  
22 completion in the health -- I'm sorry -- competition  
23 in the health insurance marketplace, protection of  
24 policyholders and consumers, and the ability of the  
25 affected insurers to remain financially strong.

1                   Based on my understanding of this  
2 merger, I believe the transaction will be  
3 advantageous to the consumers and to stakeholders.  
4 BCNEPA and Highmark have worked together for more  
5 than 75 years, and the proposed merger is a natural  
6 progression of the successful business relationship  
7 that these two companies have forged. It should be  
8 noted that BCNEPA and Highmark have jointly  
9 administered -- jointly administer commercial (HMO,  
10 PPO) and Medicare products in the 13-county BCNEPA  
11 service area.

12                   Additionally, BCNEPA and Highmark  
13 have enhanced their relationship through shared  
14 claims processing and data center services. The  
15 proposed merger builds upon the companies' strong  
16 history of collaboration and will provide a  
17 virtually seamless transition of products and  
18 services for the benefit of consumers, employers,  
19 physicians, and hospitals.

20                   Industry challenges and evolving  
21 health care policy at the national and state level  
22 are not unique to Northeastern Pennsylvania. These  
23 include technological changes, federal oversight,  
24 health insurance exchanges, market consolidation,  
25 and hospital acquisitions. The proposed merger is

1     sound business strategy in response to these  
2     evolving market factors and will allow the combined  
3     entity to remain a viable competitor that will  
4     provide value and benefits to consumers and small  
5     businesses in BCNEPA's 13-county region.

6                 Requisite for me to comment  
7     favorably on this merger was confirmed -- was  
8     confirmed assurances that the proposed merger will  
9     maintain the current 700-plus employees -- employee  
10    base in Northeastern and North Central Pennsylvania,  
11    as well as assurances from the parties involved that  
12    employment growth could occur in the wake of this  
13    transaction. Those assurances have been provided.

14                BCNEPA has displayed a  
15    longstanding commitment to its 13-county footprint  
16    across our region. This commitment and investment  
17    spans over multiple decades and encompasses not only  
18    the provision of health insurance coverage to  
19    residents of Northeastern and North Central  
20    Pennsylvania but also a stable and important  
21    employment base, and an established track record of  
22    engagement and investment in the communities in the  
23    22nd Senate District.

24                With regard to the latter, the  
25    most tangible evidence of this is BCNEPA's

1 significant and critical startup investment in The  
2 Commonwealth Medical College, further known as TCMC,  
3 the newest medical school in Pennsylvania, which  
4 recently achieved full accreditation from its  
5 national credentialing authorities. But for  
6 BCNEPA's investment, the medical school would not  
7 have been -- or would not have become a reality. I  
8 have been assured also that the merged operations  
9 will demonstrate a continued sense of  
10 responsibility, commitment, and investment in TCMC  
11 and its mission going forward.

12 In summary, I believe that the  
13 proposed merger builds upon the companies' strong  
14 history of collaboration; it leverages their  
15 respective strengths; and it achieves efficiencies  
16 that will better serve the health care needs of  
17 Northeastern and North Central Pennsylvania. I am  
18 pleased to communicate my support for this merger.

19 Respectfully submitted, Senator  
20 John P. Blake, 22nd District.

21 That concludes. Thank you.

22 COMMISSIONER CONSEDINE: Thank you  
23 very much, Larry, and please extend our thanks to  
24 the Senator for his comments and his leadership and  
25 service to the folks in this region.

1 MR. WEST: Thank you.

2 MS. LUCAS: Thank you. And that  
3 concludes all of our registered speakers for today.  
4 If there's anyone in the audience who has not  
5 registered but would like to offer comments, you're  
6 welcome to come up to the table. Hearing none.

7 COMMISSIONER CONSEDINE: Well,  
8 thank you. Again, first let me take a moment to  
9 just thank everyone for attending today's session  
10 for our public informational hearing and to extend  
11 our collective thanks and appreciation for your  
12 remarks.

13 As I've tried to reinforce, it is  
14 a critical component to us to be out here physically  
15 in this region to hear from the folks of this  
16 region, and all of your comments as well as the  
17 testimony we've heard today will be a very  
18 significant part of our review of this transaction  
19 and as we move through towards completion of our  
20 review of the Form A filing.

21 There is a public informational  
22 hearing tonight that will continue at 7 p.m., so  
23 there will be another opportunity for folks to come  
24 in and make comments. We will also give abbreviated  
25 versions of the presentations that were made this

1 morning by BCNEPA, Highmark, and their consultant.

2 And generally, as everybody  
3 reflects on today's public informational hearing, we  
4 recognize that additional comments may occur to you,  
5 and the Department certainly invites you to submit  
6 your additional comments and looks forward to  
7 reviewing them, and there is a process outlined on  
8 our website that will walk you through how to submit  
9 those public comments to us.

10 Our public comment period will  
11 remain open for 30 days after the Department's  
12 consultants have issued their reports, and we expect  
13 those reports to be issued in the very near future.  
14 We look forward to your -- reviewing of your  
15 comments on the reports as well. As I said, those  
16 are a significant part of our process, and we would  
17 encourage everybody to read those reports once they  
18 are posted.

19 Again, I would like to thank all  
20 of you for attending and participating in today's  
21 public informational hearing. Thank you all, and we  
22 are adjourned.

23 (Hearing adjourned at 2:05 p.m.)  
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\_\_\_\_\_, 2014

I hereby certify that the evidence  
and proceedings are contained fully and accurately  
in the notes taken by me of the within hearing and  
that this is a correct transcript of the same.

\_\_\_\_\_  
James P. Gallagher III  
Registered Diplomate Reporter  
Notary Public

\_\_\_\_\_  
Steven R. Mack  
Certified Realtime Reporter  
Notary Public

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