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

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

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

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

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

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

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

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

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

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

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

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

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

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

any responses to those comments from Highmark.

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

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

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

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

Kim.

MS. RANKIN: Thank you, Commissioner.

I am Kim Rankin, the Director of

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

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

counsel.

As Commissioner Consedine mentioned, the Department's review process began in February of this year when Highmark submitted the filing. The Department published notice of the filing in the Pennsylvania Bulletin on March 1, 2014. The notice advised the public on how to assess the public filing, and invited interested persons to provide comments to the Department about the filing. The Department is and has been accepting comments by mail, fax, or e-mail. As of November 11, 2014, the Department has received 19 public comments from interested persons. These comments are in the public files and available on the Department's internet website, www.insurance.pa.gov.

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

public file. Copies of the public file index are available for inspection at the registration table. The public files and the public file index are available on the Department's internet website at www.insurance.pa.gov.

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

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

Yen.

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

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

comments relating to the Form A filing. Your comments and the information that are gathered here today will be considered along with all other materials the Department has received as it continues its review and analysis of the filing. Accordingly, this hearing is being recorded by a court reporter. The Department will review the transcript of today's hearing as part of its examination of the filing. A copy of the transcript will be available on our website at www.insurance.pa.gov.

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

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

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

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

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

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

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

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

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

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

the filing and to ask questions.

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

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

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

COMMISSIONER CONSEDINE: Just hit the button there.

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

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

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

I am pleased to be here to discuss the

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

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

and approximately 750 employees.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

candidate for affiliation or merger.

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

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

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

The company retained experts to

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

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

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

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

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

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

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

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

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

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

proposal that most closely matched the goals our Board established.

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

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

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

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

across the region into the future.

So now the expected benefits of the merger from BCNEPA's perspective. The BCNEPA Highmark merger will benefit consumers, our provider partners, the community and the companies. Consumers will see enhanced product offerings and more innovative tools and technology that improve care quality and patient health and wellness. They will continue to have the confidence that comes from the availability of products offered under the Blue brand. Consumers will also benefit from the positive impact of lower administrative costs on the affordability of health coverage.

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

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

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

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

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

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

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

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

For these reasons we request the Department approve this merger.

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

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

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

MR. MOSES: Thank you very much.

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

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

MR. MOSES: Can I be heard now?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Second, it allows for the transfer of

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

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

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

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

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

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

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

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

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

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

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

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

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

continue to make grants to nonprofit organizations throughout our region.

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

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

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

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

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

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

Let me discuss for a moment, if I

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

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

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

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

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

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

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

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

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

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

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

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

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

key aspects of the transaction.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ms. Rankin.

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

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

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

Northeastern and Northeastern Pennsylvania.

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

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

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

Did that answer your question, Ms. Rankin?

MS. RANKIN: I believe so, yes.

MS. CESARE: Thank you.

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

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

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

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

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

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

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

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

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

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

COMMISSIONER CONSEDINE: Thank you.

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

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

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

COMMISSIONER CONSEDINE: Thank you.

Ms. Lucas.

MS. LUCAS: Thank you, Commissioner.

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

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

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

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

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

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

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

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

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

MS. LUCAS: Okay.

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

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

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

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

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

for how long?

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

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

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

MS. CESARE: Those employees I think

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

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

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

MS. LUCAS: Thank you.

COMMISSIONER CONSEDINE: Any other follow up questions?

MS. RANKIN: No.

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

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

MR. HOLMBERG: Okay. Thank you.

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

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

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

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

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

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

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

In an increasingly cost conscious and consumer-centric market that exists today, delays in responding to changes in the competitive environment can have significant negative consequences. Highmark has implemented an efficient and flexible organizational structure and business strategy that can quickly adapt to changing regulatory mandates. Highmark can also accomodate the introduction of competitive capabilities within months rather than years. Smaller insurers like BCNEPA are challenged by the need to make investments in capabilities to assure their long term sustainability in this new environment. By contrast, Highmark can fund the infrastructure investments necessary to operate efficiently, and comply with new government requirements and develop new products and services.

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

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

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

Deb.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

natural business as well.

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

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

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

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

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

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

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

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

Being able to to offer customers products that enhance value is an imperative for Highmark. BCNEPA currently does not have, except in pilot form, programs that shift the consumer and provider experiences towards value based care and products, such as Accountable Care Organizations, and Patient Centered Medical Home programs. Currently Highmark has two signature programs of this type, Quality Blue Patient Centered Medical Home, and Quality Blue Accountable Care Alliance. Early returns from other regions indicate that these programs slow the growths of health care costs while improving quality, a significant benefit to subscribers and plan sponsors. Backed by Highmark's substantial experience in implementing these

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

With regard to the provider networks, following the merger FPLIC's current PPO and Traditional Professional networks will be replaced over time with Highmark's Premier Blue Shield and Traditional Professional networks. These Highmark professional networks are larger than the current FPLIC professional networks and will accordingly increase access to Blue-branded products for consumers. Highmark does not have an HMO professional network in the BCNEPA service area today. The current FPH HMO professional network will become available to Highmark after the merger. Similarly, Highmark and BCNEPA have no overlapping hospital contracts in the BCNEPA service area today, so BCNEPA's existing contracts will be Highmark's contracts after the merger, ensuring continued access to a broad provider network for consumers in the region.

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

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

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

workforce.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At the same time, to address your

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

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

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

have dedicated people at BCNEPA.

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

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

overall strategic plan that you look to achieve?

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

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

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

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

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

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

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

COMMISSIONER CONSEDINE: That's a different area.

MR. HOLMBERG: And that's not easy.

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

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

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

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

can really help us manage the population more effectively.

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

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

COMMISSIONER CONSEDINE: Thank you both.

Ms. Rankin.

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

to maintain employee levels in Northeast and North Central Pennsylvania?

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

And so there's opportunities like that

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

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

MR. HOLMBERG: Fundamentally.

MS. RANKIN: Thank you.

COMMISSIONER CONSEDINE: Ms. Lucas.

MS. LUCAS: Thank you, Commissioner.

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

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

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

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

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

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

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

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

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

MS. LUCAS: Thank you.

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

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

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

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

portfolio assets that may be of value.

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

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

I don't know if you have anything specific?

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

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

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

MR. HOLMBERG: Does that answer your question?

COMMISSIONER CONSEDINE: Yes. Any more questions?

MS. RANKIN: No.

MS. LUCAS: No.

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

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

Thank you.

(The hearing was recessed.)

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

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

Dr. Capps.

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

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

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

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

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

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

We'll start with competitive overlap.

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

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

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

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

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

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

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

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

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

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

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

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

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

With respect to the Children's Health

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

That leads us to one that is really

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

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

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

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

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

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

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

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

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

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

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

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

COMMISSIONER CONSEDINE: Yes, thank you.

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

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

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

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

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

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

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

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

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

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

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

But Yen, you may have some specific questions.

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

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

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

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

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

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

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

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

MS. LUCAS: Thank you.

COMMISSIONER CONSEDINE: Do you have

any questions?

MS. RANKIN: No.

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

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

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

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

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

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

COMMISSIONER CONSEDINE: Thank you.

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

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

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

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

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

MS. LUCAS: Thank you.

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

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

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

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

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

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

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

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

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

COMMISSIONER CONSEDINE: Thank you.

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

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

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

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

* * *

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

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

Mr. Smith?

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

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

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

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

Blackstone has significant experience advising state insurance regulators on various life insurance and health insurance transactions.

This has included advising the Pennsylvania Insurance Department on the previously proposed consolidation of Highmark and Independence Blue Cross and the completed affiliation of Highmark with the West Penn Allegheny Health System; advising the Delaware Department of Insurance on the completed affiliation of Blue Cross Blue Shield of Delaware with Highmark; advising the Maryland Insurance Administration on the previously proposed conversion of CareFirst Blue Cross Blue Shield by WellPoint; advising the New York Public Asset Fund on the completed sale of WellChoice to WellPoint; and advising the Washington Office of the Insurance Commissioner on the previously proposed conversion and subsequent IPO of Premera Blue Cross.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Assessing the impact on local BCNEPA employment;

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

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

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

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

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

And that concludes my prepared comments. Thank you.

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

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

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

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

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

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

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

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

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

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

The first is the evaluation of the

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

That concludes my preliminary remarks.

COMMISSIONER CONSEDINE: Thank you

very much for your report.

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

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

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

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

MS. LUCAS: Thank you,

Commissioner.

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

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

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

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

Please note that today's hearing

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

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

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

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

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

grassroots effort by the community of Northeastern Pennsylvania.

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

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

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

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

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

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

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

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

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

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

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

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

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

COMMISSIONER CONSEDINE: Thank you very much.

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

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

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

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

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

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

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

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

As Vigon's employee benefits

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

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

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

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

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

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

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

COMMISSIONER CONSEDINE: Thanks

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

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

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

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

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

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

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

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

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

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

overall cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

And third, by thoughtfully

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

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

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

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

MR. WEBER: Good afternoon.

COMMISSIONER CONSEDINE: Good afternoon.

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

Corporation.

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

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

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

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

CCSC currently distributes these

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

create EDM Americas.

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

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

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

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

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

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

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

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

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

all of Lackawanna County and parts of Luzerne and Monroe.

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

COMMISSIONER CONSEDINE: Absolutely.

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

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

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

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

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

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

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

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

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

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

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

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

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

That concludes. Thank you.

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

MR. WEST: Thank you.

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

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

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

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

morning by BCNEPA, Highmark, and their consultant.

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

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

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

(Hearing adjourned at 2:05 p.m.)

_____, 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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