April 17, 2012

Mr. Robert Brackbill Chief, Company Licensing Division Pennsylvania Insurance Department

Commissioner Cosedine (Michael)

Thank you for making the time to hear our comments today.

My firm, Simpson & McCrady, is a regional risk management and insurance brokerage firm based in Pittsburgh. We represent over 1,500 companies with a presence in the Western Pennsylvania marketplace. As a shareholder of the firm and the practice leader for the Employee benefits division, I am here today to share with you why we feel that Highmark's acquisition of the West Penn Allegheny Health System is good for business and the members of the community. We are speaking in favor of the acquisition.

As you are well aware, health care costs nationally, and more specifically, in this region continue to escalate at a rapid rate. Employers are continuing to have difficulty in absorbing the increases each and every year. We see the financial hardship and burden of providing an employer sponsored healthcare benefit to employees first hand, as we represent these businesses in assisting them to assemble quality benefit programs. Something needs to be done to address these costs.

Currently, in our marketplace we have one predominant healthcare provider; that is UPMC Health System. UPMC has been successful in developing an Integrated Delivery System (IDS). They have learned from other predominant health systems and insurers (i.e. Kaiser Permanente) that an IDS is a successful way of managing the delivery of healthcare to it's members. Only having one health system is this area severely influences the costs that are paid by the insurance companies representing UMPC Health System and eventually the employer and lastly the end-user (the employee). There are many components to why healthcare costs what it does. One of which is what the patient pays for services when services are provided. These costs can be controlled by having more than one viable IDS in the Western Pennsylvania marketplace. By allowing Highmark to purchase the West Penn Allegheny Health System, we can be assured of three things:

1. Lower costs – by having more than one viable choice for purchasing healthcare in the Western Pennsylvania area, we can be assured that these two health systems will compete against each other to provide health services at a lower and more competitive cost. Additionally, having more than one health system will slow medical trend.

- 2. **Improve quality** by having more than one IDS locally, we can be assured that quality of healthcare will increase and the outcomes of services will be improved.
- 3. Preservation of the financial health of local businesses with the increasing costs of healthcare, many businesses are considering lowering benefits or even dropping coverage. Comprehensive benefit programs allow employers to offer competitive financial packages to recruit and retain quality employees. Two comprehensive health systems will allow employers to compete for quality employees.

Highmark Blue Cross Blue Shield created a way to control costs ten years ago by creating the Community Blue network. This network was offered to employer groups at a lower cost than the Select Blue network. The reason for the lower cost of the Community Blue network is that it excluded the UPMC facilities (traditionally a more expensive health system than the alternative, West Penn). Additionally, a smaller network can be more cost effective. The Select Blue network included all of the Western Pennsylvania based hospitals (including all of the UPMC facilities), thus making it more expensive in price. Highmark was successful in offering these two networks as a tiered approach to cost management to their customer base beginning in 1999 as an

answer to the newly launched UPMC Health Plan. The Community Blue network allowed a lower cost option for employers. Employers that were comfortable with the smaller network, elected that option between 1999 and 2002, creating a member base of approximately 250,000 members. At the last Highmark/UPMC contract negotiation (June 2002), the Community Blue network went away. The reason for this was that it was a requirement by UPMC Health System on Highmark in order for them to settle and secure their 2002 contract with UPMC Health System. This proves that a smaller network can work and having these two hospital systems compete can be a viable alternative, therefore a step in the right direction in controlling healthcare costs in the region. Again, this is only one component of addressing the ever-growing concern of increased healthcare costs, but it is a serious one for this region. Most market places have more than one hospital system choice. Currently, in the Western Pennsylvania area, we do not. Highmark's acquisition of the West Penn Allegheny Health System will be a step in that direction.

The one word that would summarize the current state of affairs for healthcare in the Western Pennsylvania marketplace is: **unsustainable**. At this rate, no employer will be able to continue to afford to provide quality benefits to their employee base in the

Western Pennsylvania area. This will cause a loss of jobs and eventually put some employers out of business.

I appreciate your time and consideration in hearing my remarks today.

Thank you.