

**BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA**

Statement Regarding the Acquisition of Control of or Merger with
Domestic Insurers:

Highmark Inc.; First Priority Life Insurance Company; Inc.;
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;
Highmark Senior Resources Inc.; HM Casualty Insurance Company;
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health; Inter-County Health Plan, Inc.;
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

**RESPONSE TO PID INFORMATION REQUEST 3.7 FROM THE
PENNSYLVANIA INSURANCE DEPARTMENT**

REQUEST 3.7:

**Provide a full and complete copy of any written testimony given on behalf of the
Applicant or any Highmark and WPAHS Entity regarding or referencing the Transaction.**

RESPONSE:

Testimony provided by Tony Farah, M.D. and David McClenahan at PA Senate Banking
& Insurance Committee hearing Sept. 13, 2011. See attached.

**West Penn Allegheny Health System
30 Isabella St., Suite 300
Pittsburgh, PA 15212**

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Tony Farah, MD
Testimony
PA Senate Banking & Insurance Committee
Tuesday, September 13, 2011

Good afternoon and thank you for the invitation to participate in today's hearing. I am Dr. Tony Farah, Chief Medical Officer and President of the West Penn Allegheny Health System Physician Organization. I have been associated with Allegheny General and West Penn Allegheny as a practicing cardiologist for more than 20 years. I have also served on the boards of Allegheny General and the West Penn Allegheny System.

David McClenahan has eloquently addressed the financial dynamics and needs of the System and the considerable due diligence that has been conducted for nearly a year and has led us to this discussion today. David has under-stated the commitment and caution with which the board has approached the proposed Highmark partnership. It would have been easier, perhaps, for the board and David as chairman, to engage with the first well-capitalized partner that expressed interest. I want to express my appreciation on behalf of the physicians aligned with West Penn Allegheny for the deliberative and thorough negotiations that our board has pursued. I also want to underscore that this transaction has progressed because both parties, West Penn Allegheny and Highmark, share a commitment to preserving and growing critical community assets.

I would like to focus my comments today on the physician perspective of the proposed affiliation with Highmark. Much of what I will share applies to the other nearly 12,000 members of the caregiver team as well: nurses, technicians, support staff and administrators. Too often, these important members of the team are under-recognized for their excellence in all aspects of patient care.

I have been fortunate to practice medicine at Allegheny General Hospital my entire career. Like many of my colleagues throughout the larger organization that we now know as West Penn Allegheny, I have chosen to stay here in spite of other enticing offers because I believe in the mission: to improve the health of the people of western Pennsylvania. Over the years we have lost some of our very good physicians and clinical staff who have been wooed by opportunities in other regions of the country, returning to their family roots or joining practices and hospitals with opportunities in their areas of clinical interest.

Others have moved their practices just a few miles across town. In some cases those decisions involved large groups of doctors and, I believe, were intended to bring Allegheny General and its parent to a breaking point. These acquisitions caused disruptions in daily operations but, more importantly, disrupted the doctor-patient relationship stressing both the patient and his or her provider.

Commentators and so-called “experts” have suggested that a West Penn Allegheny-Highmark merger will only accelerate the movement of physicians from one camp to another and vice versa, further disrupting the patient experience. These broad statements ignore the fine details of physician contracts and the institutional philosophies about physician involvement in decision making.

Since June I have received many calls from physicians throughout the region (primarily UPMC employed physicians) asking if there is a place at the new West Penn Allegheny-Highmark organization for them to practice. Similar calls have been made to other physician leaders at West Penn Allegheny. Physician contracts generally have non-compete clauses that restrict the geography in which they can practice for a period of time. I have heard time and again from these callers that UPMC contracts are particularly restrictive limiting the physician choices to remain in a closed system or move out of the region. Therefore, it is highly unlikely that there will be a mass exodus from the UPMC physician network to the West Penn Allegheny-Highmark organization, as top UPMC officials have officially stated.

Like others in the field of cardiology, I care for many individuals over decades of their lives. Hopefully with new technologies, pharmaceuticals and patient compliance we will be able to extend that relationship even longer. We come to know each other, run into one another in the grocery

store, at church and at social events. I have met countless patient family members and some I know as well as I know my own.

It has been suggested that the breakdown in contract talks between UPMC and Highmark will result in patients being forced to sever their relationships with their physicians. Regrettably, this situation will only exacerbate a trend that we at West Penn Allegheny have been experiencing for 12 years or more. Thousands of my patients as well as those of my colleagues have had to reluctantly search for new physicians due to the exclusion of West Penn Allegheny and other independent providers from the UPMC Health Plan.

For many years as patients were enrolled in the UPMC Health Plan, for whatever reason, their access to me and other West Penn Allegheny physicians has been terminated. In other words, UPMC and its Health Plan have been a closed network. Remarkably, UPMC is now touting its new-found interest in collaboration with national insurers, suggesting that it is 100% in favor of competition in the insurance market. I am not sure how UPMC can make this claim when it refuses to renew a contract with the largest local insurance provider and continues to restrict access to a sizable portion of the physician and hospital market. UPMC executives have dismissed the potential disruption patients will experience as minor and something that happens to people in other markets when they change plans all the time.

I am here to assure you that the physicians at West Penn Allegheny do not dismiss this break in our caregiving of individuals as minor and we see no value in comparing our patients to those in other markets in which we neither practice nor reside. The trust between clinicians and their patients is the cornerstone of excellent healthcare and must be valued as we transition to new delivery systems.

On a broader policy basis the current closed UPMC network prompted the expenditure of approximately \$300 million on what appears to be an unnecessary hospital in Monroeville. Subsequently, UPMC purchased Hamot Medical Center in Erie, also committing nearly \$300 million generated from patient care activities in the Pittsburgh market.

Early on, as UPMC was aggressively “selling” the need for a new hospital in the eastern suburbs, West Penn Allegheny publicly stated that it would be willing to grant privileges to UPMC physicians and care for UPMC Health Plan enrollees at Forbes Regional Hospital, which is located less than a mile from the new facility. The offer was flatly refused by UPMC leaders and we are experiencing renewed predatory activities in that market as UPMC begins to hire physicians, nurses and staff.

I meet with physicians in our System all day, nearly every day and I can assure you that the optimism and enthusiasm for the merger with Highmark is palpable. I am asked at each meeting when the deal will be done. The urgency to get beyond the struggles of the last decade or more is

immeasurable and, more importantly, the commitment to delivering care in an innovative model is absolute.

The proposed integrated delivery system which combines physicians, hospitals and a major payor will provide a unique and timely opportunity to reduce healthcare costs for our community. This issue has become a priority for our citizens and employers alike. This will be accomplished by shifting the emphasis from a volume driven reimbursement model to one which is centered on outcomes, quality, appropriateness and the patient experience. This promises to significantly reduce the costs while rewarding providers for such outcomes.

Equally important to the goal of achieving a competitive position in the market, the new system will support the education of future generations of doctors, nurses and allied health professionals. The system will emphasize the ongoing acquisition of knowledge and the adoption of best practices, both organically grown and those learned from experts in the field.

As a physician leader at West Penn Allegheny, it is my responsibility to assure physicians that are seeking an innovative, collaborative and supportive environment that rewards quality patient care, that we have a home for them, notwithstanding the contract issues I discussed earlier.

It is my pleasure to thank my colleagues who have stayed true to the cause and encourage them to stay aboard.

To you, the public officials who have the important authority to approve this transaction, I respectfully urge you to review the details thoroughly and expeditiously. We are united in our responsibility to ensure excellent care and full access for all patients in western Pennsylvania. Thank you.

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**David L. McClenahan
Testimony
PA Senate Banking & Insurance Committee
Tuesday, September 13, 2011**

Good afternoon and thank you Senator White and members of the Pennsylvania Senate Banking and Insurance Committee for inviting me to participate in this important community discussion about the future of healthcare delivery and access in the Pittsburgh region. I understand that you have invited Dr. Farah and me to address the proposed West Penn Allegheny Health System affiliation with Highmark. We are pleased to talk about this important initiative and will leave the issues of the UPMC-Highmark contract to their leaders.

I have been associated with the West Penn Allegheny Health System and its predecessor entities for more than 30 years. The challenges of the last decade have made my role and that of my fellow directors particularly challenging. Salvaging Allegheny General and the other hospitals and physician groups in this region that emerged from the ashes of the AHERF bankruptcy was absolutely critical for the community. All of these pieces were brought together under the banner of the West Penn Allegheny Health System, a name that has signified more than a hundred years of excellence in medicine and a tradition of personalized care that continues today.

I am gratified that the caregivers of our system have set the quality bar high and kept their focus on the purpose of the organization – to improve the health of the people of Western Pennsylvania – while the corporate leaders and directors have faced the financial and organizational challenges that have brought us to this new chapter in the history of West Penn Allegheny Health System.

The news coverage of West Penn Allegheny's financial travails has been constant and alarmist on many occasions. The truth is that in spite of many sound strategies and devoted individuals, we have not been able to achieve financial sustainability and, therefore, certainty that the non-profit mission of the organization would be carried on for the benefit of the community. More than a year ago, the board of directors concluded that we needed to identify a capital partner, an entity that would provide a significant financial infusion to address the programmatic and facility backlogs that we have been unable to tackle in meaningful ways.

Like most hospitals and healthcare systems in the country, West Penn Allegheny has been tested in meeting the demands for new equipment, the attraction and retention of medical professionals, physical plant upgrades and the adoption of information technology. In addition, West Penn Allegheny has been operating in a market that is skewed, at best, by a dominant competitor in the healthcare delivery sector and in the insurance

sector. I noted with great interest that Mr. Romoff of UPMC recently acknowledged at a similar forum that his organization is a monopoly.

Notwithstanding Mr. Romoff's statement, we believe that the Pittsburgh market, which is really a six county region, is unlike any other healthcare market in the country because of the market share that has been under the control of UPMC and Highmark. On the provider side, I will not recount all the facts that we have presented in similar forums over the years about the predatory actions of UPMC, which we believe were intended to put West Penn Allegheny out of business. We cannot ascribe all of our current financial travails to this dynamic, but it has been a dominant factor in our strategic decision to partner with Highmark.

I know that the members of this panel and many others are questioning why Highmark and why now. The answer is not complex. The financial profile of West Penn Allegheny is fragile and we were faced with continued downsizing of our system, including complete closure of West Penn Hospital in Bloomfield, in hopes that we would eventually be stable and able to rebuild services and rejuvenate remaining facilities. The reality is that organizations – governmental and private -- cannot cut their way to prosperity.

As a board, we re-committed ourselves to preserving the charitable mission of West Penn Allegheny by pursuing serious due diligence to identify a partner with a strong balance sheet that would share the mission. I want to

underscore this point. The West Penn Allegheny board members live and work in this community, and we take very seriously our fiduciary responsibility to preserve these community assets for the people who have built them, use them and come to work in them each day. We do not “own” West Penn Allegheny, the community does.

Rumors are still circulating that we have entertained acquisition offers from health systems outside this community. The fact is our physicians and other staff members are always looking for best practices and we frequently engage in meaningful discussions in hopes of bringing the best ideas back to our programs. These kinds of exchanges should continue but do not constitute a “sale” to another health system.

We have talked to private investors and for-profit healthcare providers to understand what the future of West Penn Allegheny would be if partnerships with any of them were formed. We concluded that while our financial challenges might be resolved with a stroke of a pen, the mission of this organization would not be preserved. In all likelihood, West Penn Allegheny would be taken apart, some assets would be preserved for their ability to generate revenue for the “owners” and many more programs and facilities that provide important care for our families and neighbors would be shuttered because they do not turn a profit. In the end, I am certain that the success of whatever pieces remained would be dependent on a contract with Highmark because of its position as the largest insurer.

Our board was not willing to preside over the demise of our charitable mission. It became clear that affiliating with another non-profit community asset was the best alternative for preserving the rich tradition and purpose of West Penn Allegheny. Highmark was the obvious partner.

It has been stated by uninformed parties whose interest lies only in disrupting this deal that Highmark will need to spend most if not all of its reserves to prop up the failing West Penn Allegheny. These same individuals go on to state that the investment will ultimately fail because the current West Penn Allegheny financials are so bleak. This rumor is further embellished with the suggestion that Highmark is saving West Penn Allegheny on the backs of subscribers. It is unfortunate that some have resorted to fear mongering to impact this initiative. Their statements are made with no regard for the nearly 12,000 employees of West Penn Allegheny or the Highmark subscribers who are confused and worried about future access to their current providers.

I am certain that you will ask Highmark about these rumors in subsequent hearings and I will not presume to answer on their behalf. I would like to share a perspective on why the expenditure of up to \$475 million is an appropriate action. I offer this view as both a health insurance subscriber and as a West Penn Allegheny board member. As a subscriber, and a patient from time-to-time, I believe that this community needs competition in healthcare delivery. Competition in healthcare is key to improving quality, expanding access and reducing costs. I was glad to hear Mr. Romoff

articulate, quite vigorously, his new found support for competition in healthcare delivery in this region. The reality is that to achieve this shared goal, investments must be made. Highmark is planning to invest locally generated resources in the preservation of local community assets that care for and educate local people. We welcome patients and professionals from across the globe, but it is not our mission to invest local dollars in other states or countries.

I know you and others in the community have wondered how we could have entered into discussions about affiliation with an organization that we had so roundly criticized in the media and legal filings. It is important to note that the legal action that we took against Highmark was part of a larger suit. The allegations about Highmark's behavior were directed at transactions that occurred prior to 2007. By the time the suit was filed, West Penn Allegheny and Highmark had negotiated a fair and equitable contract renewal. I would be disingenuous if I suggested that there were not lingering apprehensions in the early days of our discussions, but I want to be absolutely clear that both parties entered our lengthy dialogue with a unified goal of preserving the community assets and charitable mission of West Penn Allegheny.

It has also been suggested that Highmark will ultimately leave West Penn Allegheny "at the altar," by striking an eleventh hour deal with UPMC. I am satisfied that we addressed this potential scenario early in our exchanges with Highmark. I met with four Highmark board leaders, including their

chairman, Robert Baum, and pressed them on this specific issue. I want to assure you that I would not have stood with Dr. Melani and Dr. Baum on June 28 to announce that we had reached a term sheet agreement if I did not have absolute certainty that they are firmly committed to this partnership.

The boards of West Penn Allegheny and Highmark imposed upon ourselves an eight week deadline for reaching a definitive deal. That date has slipped a bit but not because of any major stumbling blocks, and I am confident that we will have news of our progress very shortly. As a team we will respond quickly and transparently to all questions from the regulators that are here with us today. It is imperative for the community that this affiliation is implemented as soon as possible.

I want to thank you for this opportunity to share the facts of our proposed affiliation with Highmark. The future of healthcare delivery for the Pittsburgh region is brighter because we are building a new model of financing and delivery focused on the needs of this community. We appreciate the support we have had through the years from the Commonwealth of Pennsylvania and we look forward to working closely with you to ensure continued quality and access for patients and providers.