

Remarks on Highmark – UPMC Contract
Pennsylvania House Insurance Committee

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Kenneth R. Melani, M.D.
President and Chief Executive Officer

Deborah L. Rice
Executive Vice President
Health Services Division

Highmark Inc.

Good morning. My name is Ken Melani and I'm president and chief executive officer of Highmark. Joining me today is Deb Rice, our executive vice president of Health Services. Deb is responsible for providing senior leadership and strategic direction for our health insurance business. She is also responsible for provider contracting and Highmark's integrated clinical services.

While Deb will provide the main portion of Highmark's testimony this morning, I want to take just a brief moment to give my perspective on the issues that will be discussed today.

First, I'd like to thank Representative Sonney and the members of the Committee for convening today's hearing. It's my hope that sessions like this will enable us to have a clear dialogue, discuss the facts, and ultimately, provide peace of mind and security for the people of Western Pennsylvania when it comes to their health care needs.

In recent months, there has been a great deal of attention about the local health care marketplace – most notably, the status of Highmark's contract with UPMC, and our plan to pursue an affiliation with the West Penn Allegheny Health System.

Both issues – our contract with UPMC and the affiliation with West Penn Allegheny – are critically important because they provide choices for the people of Western Pennsylvania. The region’s hospitals are charitable institutions – they’re not private property; they belong to the community and everyone deserves access to these vital facilities and the physicians who provide care.

For 75 years, Highmark has focused on a mission of making quality health care coverage available to everyone. Our members have placed their trust in us to provide them with access to the region’s health care providers.

As we’ve stated repeatedly, Highmark is committed to looking for common ground and reaching a reasonable contract with UPMC so that our members continue to have access to UPMC’s hospitals, physicians and other health care providers. The community expects us to work cooperatively on their behalf – and Highmark stands ready to do so.

Again, I want to thank the committee for conducting today’s hearing. I’ll be happy to address any questions you may have following Deb’s remarks.

Thanks Ken. I, too, want to thank the Committee for inviting us here today.

In late June, I was very proud to stand with hundreds of doctors, nurses and staff of West Penn Allegheny Health System as they were told of a proposed partnership with Highmark. I was moved by this important moment because it showed what non-profit organizations can and should do to meet the needs of our community. This investment demonstrates Highmark's commitment to the West Penn Allegheny Health System employees, patients and doctors who have relied on these storied hospitals for high-quality care and employment for more than a century.

As a non-profit company, with deep roots in Western Pennsylvania, Highmark could not stand aside and watch West Penn Hospital close its doors and allow the entire system to continue to falter. The negative consequences for our region would have been immeasurable.

We could not allow the 11,000 West Penn Allegheny Health System employees and their hundreds of thousands of patients to experience further uncertainty about the future of this important community asset.

I mention Highmark's proposed partnership with West Penn Allegheny Health System, which we hope will receive speedy state regulatory approval, because it is the stated reason for UPMC's refusal to negotiate a new contract with Highmark.

Every day, I meet with employers, hospital administrators, leaders of trade groups and associations, labor leaders, and insurance brokers. Not surprisingly, the dispute between Highmark and UPMC is a hot topic of discussion. And almost universally, everyone is telling me the same thing: They want stability in the health care marketplace. They want the security of knowing that individuals and families with Highmark coverage will continue to have access to a facility or doctor of their choice.

They want the assurance that vital community assets are available to everyone.

And, most of all, they want Highmark and UPMC to negotiate a new contract and work together to maintain access to high quality and more affordable medical care. Simply stated, they want collaboration for the common good, not conflict for one's private advantage.

WE TOTALLY AGREE

As the dispute has lingered, it has become clear that the community expects these two non-profit organizations to act as responsible corporate citizens and follow some common sense principles that reflect the best interests and shared values of our community.

First, vital community assets must be available for the public good.

No health care organization or institution should be allowed to, or have the power to, limit access for millions of people to facilities that are viewed as critical community assets such as Hillman Cancer Center, Western Psychiatric Institute, and Magee-Womens Hospital, and UPMC's community hospitals. These institutions have been supported by taxes, taxpayer grants, local philanthropy and subscriber premiums – and they are not anyone's private property.

And yet some Highmark members, especially those with serious medical conditions who cannot obtain health insurance elsewhere, may be the most at risk if UPMC terminates its relationship with Highmark.

It would be unconscionable to let a Highmark member with lung cancer lose access to the Hillman Cancer Center or a UPMC advanced care hospital, either because a health system arbitrarily decided to shut out an institution from Highmark's provider network, or because of the prohibitive cost of obtaining necessary medical treatment from an out-of-network provider. In either scenario, the result is unacceptable.

The second principle is that non-profit organizations exist primarily for the public good. Non-profit organizations like Highmark, and charitable organizations like UPMC, are supposed to cooperate toward goals that put the public interest first. In the case of health care, that means putting the patients' interests first.

Because of our efforts to work with the West Penn Allegheny Health System and other independent hospitals and physicians to preserve choice for our members, UPMC walked away from negotiations on a new contract. They have been very clear about this in their statements to the media.

We find their position interesting because UPMC has had a health insurance plan for more than 10 years. This means UPMC, as a health insurance company, has competed with Highmark for years. In fact, UPMC Health Plan now claims to have a membership total of more than 1.5 million people, which puts them second in the ranks of local insurers. Yet Highmark has not hesitated to work with UPMC as a health care provider – and we have always considered UPMC to be a vital part of Highmark’s provider network.

Unfortunately, West Penn Hospital, Allegheny General and other hospitals in the West Penn Allegheny Health System have always been excluded from UPMC’s health insurance plan.

Moving forward, if Highmark and West Penn Allegheny Health System are successful in completing the affiliation, then West Penn Allegheny Health System will be open to contracts with all insurers, including UPMC Health Plan.

The third principle is that competition and choice should exist not only among health insurance companies but also among health care providers. While Highmark has always welcomed competition among health insurance companies, there must also be competition among viable health care delivery systems to hold the line on health care costs.

Let me explain the importance of provider competition a little more.

Roughly 90% of health insurance premiums are used to pay for patient care, such as doctor visits, hospital stays and prescription drugs.

Highmark's administrative costs and a small operating margin make up the remaining 10%. This means that higher medical costs, which are driven by the demands of hospitals for payments from private insurance companies and by the increased use of medical services, are the main contributors to higher insurance rates.

The public is starting to understand the direct connection between higher medical spending and higher insurance rates.

The problem of higher medical costs is compounded when there is little provider competition in a market, so that the cost of medical services is essentially set by one health system or hospital.

Research shows that dominant health delivery systems use their market strength to obtain higher private insurance payment rates, which then directly translates into higher insurance premiums.

We are already seeing this phenomenon in Western Pennsylvania, where Highmark subscribers that are heavy users of UPMC have significantly higher health care costs on a per employee basis than members that do not use UPMC services as much.

The bottom line is that our region needs a choice of financially sound health care delivery systems and independent community providers to effectively let market forces hold down cost increases. Otherwise, as we are already seeing, a single, dominant system can demand unreasonable payment increases from all private health insurance companies, which this region can't afford.

In addition, our community needs the assurance that multiple resources are available for critical medical services. Imagine if the region had only one cardiac center or transplant program that had to be closed due to a fire, public safety issue or a government investigation. The people of Western Pennsylvania would be forced to travel to Cleveland, or another city, to get the care they need.

The fourth principle is that the continuity of patient care must be preserved. The threat by UPMC to terminate contracts with Highmark has raised concerns about the continuity of patient care for area residents and physicians. A recent survey by the Allegheny County Medical Society found that 80% of responding physicians said they believe that patients' access to care will be negatively impacted if Highmark and UPMC don't reach a contract agreement.

The final principle is that preserving choice and competition boosts the economic vitality of Western Pennsylvania. The health care sector is one of the key economic engines for the region. By maintaining multiple health systems in the region, we can save existing jobs, and create more employment and stronger, more economically viable communities throughout Western Pennsylvania.

So how can UPMC and Highmark demonstrate that they are representing the best interests of the community? The first step is for the two organizations to resume negotiations on a new contract, as soon as possible. And I assure you today that Highmark is ready to resume talks with UPMC -- anytime, anywhere.

Up until now, UPMC has offered Highmark only the hollow option of negotiating something akin to a divorce settlement. The community does not want this, and Highmark doesn't want it either. UPMC's approach clearly fails the tests I outlined earlier.

We have no interest in discussing end-of-contract issues. In fact, it is hard to understand why we would discuss end-of-contract issues, when there is almost a year left on the current contract, plus a one-year run-out period through June 30, 2013, during which our members will continue to have access to UPMC and physicians as in-network providers.

As is the case with any negotiations between a private insurance company and a health care system or hospital, there may be differences of opinion on the amount an insurer should pay a facility for the medical care it provides. If reimbursement is, in fact, the major hurdle to a new agreement, Highmark wants to sit down with UPMC to discuss those differences.

Our goal is to reach an agreement with UPMC that achieves a delicate balance: We want to fairly reimburse UPMC to provide proper quality care for the millions of members that we serve, but we also must maintain comprehensive and affordable health benefit programs for our customers.

UPMC, however, has demanded unacceptable reimbursement rates that would translate into significant increases in health care costs for the community, and significant increases in local insurance premiums.

Therefore, while Highmark is committed to continuing its long-standing relationship with UPMC, we also have an obligation to manage the cost of health care coverage on our customers' behalf.

In closing, we strongly believe that it is time to sit down with UPMC and work through our differences. We have both been down this path before and we found a way to resolve it. History has taught us that Highmark and UPMC can do great things for this community when we work together. Just look at the new Children's Hospital in Bloomfield.

The two organizations now have another opportunity to work collaboratively on behalf of the community. As Ken said, Highmark is ready, immediately, to negotiate a reasonable contract with UPMC that gives our members, many of whom are also your constituents, access to UPMC hospitals and physicians into the future.

If there is a need for a third party to mediate the contract negotiation process, we are open to that. We hope UPMC shares the same community outlook and stands ready to follow common sense principles that reflect the best interests and shared values of our community.

Thank you. Ken and I are ready to answer any questions the Committee may have.