

Remarks on West Penn Allegheny Health System Affiliation and Highmark – UPMC Contract

Pennsylvania Senate Banking and Insurance Committee

September 22, 2011

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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 Chairman White and other 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, ease the concerns 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 Western Pennsylvania 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.

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 greater choice and access to all of the region's health care providers. That's why 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.

As you are well aware, health care is undergoing tremendous change. Some of it is driven by market forces. Some of it is driven by health care reform. We welcome change to improve access to high-quality and affordable health care services. But we don't need change that restricts access to necessary medical services and disrupts continuity of care for hundreds of thousands of people in our communities, which would be the end result of UPMC's refusal to contract with Highmark.



Instead, we should build on the strengths of our current system such as preserving the tradition of choice for individuals and families when selecting a hospital or a doctor while also moving to improve the system by better aligning financial incentives to encourage the delivery of the best possible care and providing more information about the cost and quality of medical services so consumers are better able to make more informed choices.

We should also ensure that physicians and other caregivers can continue to refer their patients to the best services that our communities have to offer, rather than have a health system or health plan limit access by excluding certain hospitals or practitioners from its networks.

So as you hear the sharply different viewpoints today by Highmark and UPMC, ask yourself this question: Which approach is in the best interests of your constituents and the region as a whole?

We believe the Highmark vision clearly sets the right direction for Western Pennsylvania. It marries the best of the past with the needs of the future and reflects the shared interests of the community: maintaining individual and family choice, preserving access to community assets and shifting the emphasis in health care from maximizing revenue to better patient outcomes and a better patient experience.

Our vision is in step with the more active role of individual consumers and families in health care decision-making. Individuals want more choice – not less choice – when selecting hospitals, physicians and other health care professionals to meet their changing medical and financial needs.

Provider choice is a very personal decision. When a large health system decides that its hospitals and doctors are no longer part of one insurance company's network, it is of little solace to members with that health plan that their employer offers other health plans. These individuals have lost the freedom of selecting a doctor or hospital of their choice. This is especially problematic in rural markets – such as Oil City or Bedford – that have only one hospital in a large geographic area.

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

We are also ready and able to move forward with our affiliation with West Penn Allegheny Health System. We are totally committed to making this partnership work on behalf of our customers and all of Western Pennsylvania. But I cannot overstate one important point: The state must act quickly to review and approve this transaction so we can move rapidly to maintain provider choice in our region and have real competition among viable health care delivery systems to hold the line on health care costs.

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 nonprofit organizations can and should do to meet the needs of our community. This investment demonstrates our commitment to the West Penn Allegheny Health System employees, doctors and community residents who have trusted these storied hospitals for high-quality care and employment for more than a century.

As a nonprofit 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. And yet, our proposed partnership with West Penn Allegheny Health System is the stated reason for UPMC's refusal to negotiate a new contract with Highmark.

Based on the discussion at last week's hearing, we realize that members of the Committee have lots of questions about our affiliation with the West Penn Allegheny Health System. At the outset, I want to be clear: We have an unwavering commitment to make this partnership work and preserve the long-term viability of the West Penn Allegheny Health System.

This system will succeed if it is given a fair chance. Achieving this goal will take some time, but we are already assembling a skilled team of people with many years of expertise in operating successful hospital systems. If the state rapidly approves the transaction, we can institute operating efficiencies and quickly improve the system's financial soundness, which will enable West Penn Allegheny Health System to meet all of its financial obligations and continue to provide excellent patient care.

There has been lots of talk about how Highmark will operate as an integrated delivery and financing system in the future with the West Penn Allegheny Health System as the hub. And at this point, this talk is pure speculation. We are still in the early stages of putting together the different components of our system. But one thing we can say with certainty is that this system will be driven by a focus on the patient experience, good medical outcomes and efficiency.

In contrast to UPMC's monopolistic model — and UPMC has admitted publicly that it is a monopoly — Highmark's system will be built on collaboration. We intend to work cooperatively with independent community hospitals and both independent primary care and specialty physician group practices to align payment incentives to support the delivery of evidence-based care, share technology investments and assist providers to better manage and coordinate the care of people with chronic medical conditions.

Our integrated delivery and financing system will not exclude certain hospitals and will not encourage physicians to perform more tests and more procedures to maximize revenue. Moving forward, if Highmark and West Penn Allegheny Health System are successful in completing their affiliation, then West Penn Allegheny Health System will be open to contracts with all insurers, including UPMC Health Plan.

At the same time that we are eager to develop a new, innovative model of delivering care for the people of Western Pennsylvania, we remain committed to reaching a new agreement with UPMC.

Not surprisingly, the dispute between Highmark and UPMC is a topic of discussion everywhere in our region. At town meetings, in letters to the editor, on radio talk shows, Western Pennsylvanians are expressing frustration, fear and insecurity about whether they will continue to have access to the hospital and doctor of their choice. They worry about having to reluctantly search for new providers due to the exclusionary tactics of UPMC.

The stories are heart-wrenching. I have heard from cancer patients who already are struggling every day with medical suffering caused by their illness as well as the emotional impact on themselves and their loved ones.

And then add to all this, they now worry about losing access to the Hillman Cancer Center or a UPMC advanced care hospital, either because a health system arbitrarily decides 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 and lacks compassion.

Many providers are frustrated as well. Take the case of an owner of an independent physical therapy clinic who has tried many times, unsuccessfully, during the past 15 years to join the UPMC physical therapy network. As UPMC buys more physician practices, her PT clinic has received fewer and fewer patients from UPMC doctors, who refer patients only to UPMC-owned physical therapy centers. Now she is worried that her center may not survive because some of her other patients with non-Highmark coverage will be steered only to UPMC physical therapy centers.

The voice of Western Pennsylvania residents is loud and clear. 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 nonprofit organizations to act as responsible corporate citizens and follow some commonsense 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 expertise available at critical community assets such as Hillman Cancer Center, Western Psychiatric Institute, 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 who stands to suffer the most if UPMC follows through on its threats? Highmark members with serious medical conditions who are not covered by an employer plan and can get health insurance only from Highmark. They would essentially be excluded from UPMC's specialty and advanced care hospitals because they can't afford the very high cost of expensive medical care at a non-network provider.

The second principle is that nonprofit organizations exist primarily for the public good. Nonprofit 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 decision.

We find their position untenable 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 it 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.

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 percent 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 percent. This means that the rise in health insurance premiums is being driven by higher medical costs. 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 translate into higher insurance premiums.

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

In short, 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 like UPMC can demand unreasonable payment increases from all private health insurance companies, which this region can't afford.

The fourth principle is that the continuity of patient care must be preserved. UPMC has tried to downplay the fact that its refusal to contract with Highmark will seriously disrupt continuity of patient care. Consumers who have switched their doctors and health plan can tell you how unsettling this process can be to their well-being. In fact, a recent survey by the Allegheny County Medical Society found that 80 percent 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 bottom line is that Western Pennsylvanians shouldn't be forced to switch doctors and insurance companies to preserve access to nonprofit community assets.

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 as we have said many times, Highmark is ready to resume new contract 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.

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 an 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 on behalf of 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.

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 Pittsburgh.

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 follows commonsense 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.