UPMC LIFE CHANGING MEDICINE

Statement of ***Jeffrey A. Romoff***
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Before the Pennsylvania Senate Banking and Insurance Committee
November 30, 2011

On behalf of UPMC, our Board of Directors, and our 54,000 employees, thank you for this opportunity to bring the Committee up to date on the significant changes that are occurring in health care in Western Pennsylvania.

The most important development is the recent filing of Highmark's plan for acquiring and operating the West Penn Allegheny Health System. Just eight weeks ago, Dr. Melani and Ms. Rice told this committee that "talk about how Highmark will operate as an integrated delivery and finance system . . . with West Penn Allegheny" was "pure speculation." [1]

Now, of course, it is clear from the statements by Drs. Melani and Ghezzi and Mr. Baum and from Highmark's filings with the Insurance Department, that this has been Highmark's plan all along. As we forecast to this Committee at the last hearing, Highmark's intent is to compete head-to-head with UPMC as an IDFS. We welcome the competition.

But Highmark's intentions go far beyond building an integrated health system with West Penn Allegheny at its core. In the last month Highmark has disclosed nothing less than its vision for how health care should be delivered to Western Pennsylvania from now on.

That vision, which is broad and bold, has apparently been driving Highmark's strategy for at least 18 months.[2] And it includes no place for an extension of UPMC's contract.

Let me be specific. In the middle of a 230-page document recently filed with the Insurance Department are 13 pages entitled "Overview of Highmark's Strategic Vision" (Tab B). In that important document Highmark sets forth, for the first time, what it calls an "imperative for change in the Western Pennsylvania delivery system." [3]

Pointing to well-documented problems like skyrocketing insurance premiums and over-utilization, Highmark identifies the culprits as everyone except itself and then pronounces its solution: "[A] fundamental change in the role of the provider . . . and the consumer . . . ." [4]

Highmark's vision for providers can be summed up in one word: control. In order to pursue its strategic objectives Highmark will have its hand on every lever in its vertically integrated system.

So in keeping with its vision Highmark will realign compensation programs for physicians, will require hospitals to enter into "alternative contract

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1 Kenneth R. Melani and Deborah L. Rice, "Remarks on West Penn Allegheny Health System Affiliation and Highmark-UPMC Contract," before Senate Banking and Insurance Committee, September 22, 2011, (Tab A) at 3.

2 Overview of Highmark's Strategic Vision, (Tab B) (hereinafter "Overview") p. 2

3 Overview, p. 8.

4 Overview, p. 9.

relationships," will expect its providers to make unspecified "investments," and will impose what Highmark calls "innovative care models." [5]

Nor does Highmark want to do business with any provider that doesn't share this vision; as it has told the Insurance Department, it "no longer intends to simply negotiate prices with providers, but rather intends to create the market conditions for a much more efficient exchange of dollars for services." [6]

Indeed, Highmark's vision aims to build a new provider system explicitly without UPMC whom it blames for the high cost of regional health care. Both Highmark and UPMC now agree that this relationship must come to an end to best serve the community.

As for consumers, Highmark has confirmed its intention to use "tiering" to steer consumers to the providers it owns and controls, including West Penn Allegheny, and away from providers it does not own or control.

At a press conference held on November 1, 2011, Dr. Melani was clear and direct:

> *So there can be a tier one, a tier two, maybe even a tier three and then what you can do is you can put cost sharing in place related to where the tier is. . . . [I]t's very easy for you to have a benefit program that says well, I know when I go in West Penn Allegheny is a tier one, Joe Blow is a tier two. It's a little easier to understand that and effectively make that work.*[7]

In other words, neither providers nor consumers will be doing business as usual with Highmark. Highmark wants to — indeed, needs to — steer and tier consumers into its wholly-owned subsidiaries.

Much has been said about the need to give consumers "choice" and to "preserve access" to UPMC's world-class physicians and facilities. Note, however, that when consumers in this area have that complete and unfettered choice and access — as they have had under the expiring Highmark contracts — they choose to access UPMC over West Penn Allegheny, whose patient volume has declined dramatically putting it at high risk of financial collapse. Those consumers have, in effect, cast their "votes" in favor of UPMC's services.

Once Highmark acquires West Penn Allegheny it must overturn that vote and override the unfettered choices of its own subscribers if it is to ever recover the billions of dollars of investments of subscriber premium reserves it is about to commit.

We cannot be coy about this — it is Highmark's plan to make UPMC <u>in</u>accessible to as many Highmark subscribers as possible in order for Highmark to survive. This is not permitted under our current contracts with Highmark or the national insurers, but will now be a necessity for Highmark.

One other aspect of Highmark's recently unveiled strategic vision is worth highlighting. In that vision, West Penn Allegheny appears to be significantly

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5 According to its Strategic Vision, Highmark would:

- "re-align[] physician incentives through new reimbursement models";
- "secur[e] access to a 'full service' network of . . . providers that both share in the visions . . . and are willing to enter into alternative contract relationships and make investments . . . to promote the adoption of new protocols and/or alter care offerings";
- "Promot[e] the introduction of innovative care models and lower-cost sites of treatment"; and
- "Build[] platforms to support care redesign and cost reduction within the provider community."

Overview, pp. 5-6.

6 Overview, p. 2.

7 Unofficial transcript of press conference held November 1, 2011 (Tab C) (hereinafter "Press Conference"), pp. 14-15.

diminished, a major departure from Highmark's previous promises. At the hearing on September 22, Dr. Melani denied that Highmark was trying to aggregate providers in an effort to duplicate UPMC's business model when it bid to acquire Hamot Medical Center.[8]

Yet as Highmark's more recent statements and filings reveal, it has for some time been planning to create a large "provider division," which will be incorporated as a 501(c)(3) and will house a "cadre of provider organizations, one of which will be [WPAHS]." [9] Also under that non-profit umbrella, it says, "could be other hospital systems, . . . other physician organizations, physician practices, all sorts of things[.]" [10]

This is a very grand vision of a Highmark-controlled healthcare conglomerate, which Dr. Melani declares will have national and international extensions. This will undoubtedly cost billions of dollars to achieve, apparently diverting these funds from its prior commitment to assume the debt and pension liabilities of West Penn Allegheny, to rebuild its infrastructure and to support its workforce and retirees.

What role West Penn Allegheny will actually play in Highmark's integrated delivery system and whether it can survive with very limited funding remains to be determined, though it appears to be on its own financially.[11] Highmark has capped its financial exposure going forward at a $250 million loan,[12] which will raise West Penn Allegheny's already crushing debt load and pension obligation to $1.3 billion.

Instead of assuming responsibility for the liabilities and future of West Penn Allegheny, which should reasonably accompany its control of this hospital system, Highmark will need to use its subscriber premium reserves to create a new healthcare conglomerate driven by the desire to compete with UPMC. From UPMC's perspective, the acquisition of West Penn Allegheny is now also of diminished importance as it would play only a small part in Highmark's grand vision.

Thus, Highmark's vision is no longer to "save" West Penn Allegheny, but rather an open ended and expensive transformation of itself from an insurer to an integrated health system. As a result of this unprecedented and radical departure, Highmark will no longer resemble a traditional Blue Cross/Blue Shield plan, with broad and open access to unaffiliated providers.

Neither UPMC nor any other provider should be expected to contract with this new healthcare

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8 Sen. Earll: You had talked to Hamot at some point in time? . . .

Dr. Melani: We did talk to Hamot. Yes we did.

Sen. Earll: Which was not financially vulnerable and in fact was very healthy. So you didn't look at purchasing that hospital out of some charitable mission in terms of . . .

Dr. Melani: No, we backed out of it because they were financially viable. It wasn't necessary to do that transaction.

Sen. Earll: It wasn't that you had determined that you needed to develop a business model similar to UPMC. . . .

Dr. Melani: No. We looked at that. We looked at their strategy and their plan and determined that they were financially viable. It wasn't necessary to use community assets in that situation.

Unofficial transcript of testimony of Kenneth R. Melani and Deborah L. Rice before the Senate Banking and Insurance Committee, September 22, 2011 (Tab D), p. 5.

9 Press Conference, p. 10.

10 Press Conference, pp. 10-11.

11 Despite the proposed transaction the continued precariousness of West Penn Allegheny's financial position has not escaped the attention of financial analysts. Just last week Moody's downgraded West Penn Allegheny's bonds two levels from B2 to Caa1, and maintained its "negative outlook" on the company's prospects. (Tab E).

12 Highmark has already provided West Penn Allegheny with $150 million (including a $50 million loan) and has pledged $75 million toward scholarships at a planned medical school.

conglomerate as if it were a simple insurer of last resort. To do so would relinquish control of critical functions to Highmark and place in grave jeopardy UPMC's world-class, patient-driven academic medical center.

Make no mistake, our first priority is to preserve one of our community's greatest nonprofit assets with 54,000 employees and $563 million in community benefit contributions each year. UPMC generates $20 billion of economic value and jobs in this period of great economic challenge.

Most importantly, UPMC exists to provide the finest care to our patients, to educate health professionals, and to conduct or support research to enhance the quality and reduce the cost of healthcare. This organization has taken decades to build, recruiting the best and the brightest from across the country to Pittsburgh. We cannot put this nationally renowned medical center under the control of Highmark and thereby make it less — not more — accessible to you and our patients. It is just that simple.

So where is all this going from the standpoint of patients, consumers, employers, and physicians? Actually, the outlook is quite good.

Looking ahead, Western Pennsylvania will ultimately enjoy the competitive benefits of four, broad-network insurers (Aetna, Cigna, HealthAmerica, and United Healthcare) and two integrated health systems (UPMC and Highmark/West Penn Allegheny). Central questions for this Committee should be how soon can we get to that point and how smoothly can we make the transition.

In an effort to answer both those questions, and at the invitation of Chairman White, UPMC put together its Patient Care Assurance Plan. (Tab F). There we have itemized all the transition issues we believe can be resolved with Highmark so that the community can get the full benefit of UPMC's national insurer strategy and Highmark's IDFS strategy.

We have committed to make our widely preferred specialty services such as the Hillman Cancer Center, Magee-Womens Hospital and Western Psychiatric Institute and Clinic available to Highmark subscribers at market rates during the transition.

We have committed to continue to serve Highmark's Medicare, Medicaid and Children's Health Insurance Program. We have committed to serve those vulnerable groups of Highmark subscribers who cannot otherwise obtain individual coverage — all this to provide an orderly unwinding of the expiring contracts and to assure that in this transition no patient is left behind.

Highmark, however, is not willing to address these transition issues, apparently preferring to hold the subscribers and patients hostage to its grand vision.

In order to bring this uncertain and disruptive situation to a speedy resolution — and toward that place where there are four competing, broad-network insurers and two competing integrated hospital systems — let me suggest the general parameters that might shape any proposed solution.

First and most importantly, we must provide the community, patients, subscribers, employers, and physicians with:

- Uninterrupted access to world-class healthcare at reasonable prices;
- Fair competition at both the insurance and provider level;
- Clear and transparent options to enhance choice;
- Time to make important decisions; and
- An end to the bickering and public relations wars.

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Any solution should also give Highmark what it says it wants:

- To have its proposal to acquire West Penn Allegheny impartially evaluated with all deliberate speed, unaffected by contract issues with UPMC;
- To part company with UPMC and free itself from contracts with providers that are based on fee-for-service and that constrict Highmark's ability to steer and tier; and
- To re-align the internal incentives and business practices of like-minded or wholly-owned providers in pursuit of an integrated delivery and finance system.

From UPMC's standpoint, any solution would allow it:

- To pursue its own IDFS vision for lower costs and better healthcare;
- To contract with insurers who will not insist on imposing their vision of how an integrated health system should operate;
- To part company with Highmark, which clearly does not share our vision any more than we share theirs, at the end of the current contracts; and
- To ensure that patients, subscribers, employers, and physicians have fair and plentiful opportunities to choose UPMC doctors and hospitals.

We believe that there are solutions that would satisfy all these criteria, providing for uninterrupted patient choice and accessibility with enhanced competition while Highmark and UPMC mutually part company. Pleased be assured that UPMC stands ready to work with this Committee, the State regulatory authorities and the Governor's office to fashion this transition within the next 30-60 days.