

Statement of *Jeffrey A. Romoff*
President and CEO, UPMC
Before the Pennsylvania Senate Banking and Insurance Committee
September 22, 2011

Thank you for the opportunity to present testimony at today's hearing. We have provided the members of this panel with copies of our prior testimony before the House Insurance Committee as well as our other public statements and respectfully request that you allow these to stand as our testimony before this group.

My objective today is to be brief, to address a few of the issues from last week's hearings and then respond to questions.

1. Let me start by re-iterating that there will be no contract between UPMC and Highmark. This is not a negotiating ploy. UPMC's Board unanimously decided not to renew the contract with Highmark after thorough review of the implications of Highmark's planned acquisition of West Penn Allegheny and conversion into a direct competitor to UPMC. This decision was necessary to assure that UPMC will continue to be accessible and available to the citizens of our region and with a view to what we believe will be the very positive impact on quality and cost.
2. Moreover, UPMC supports Highmark's acquisition of West Penn Allegheny. Like Mr. McClenahan, we believe that our community needs competition in healthcare delivery. Competition in healthcare is key to improving quality, expanding access and reducing costs.

We believe that competition between UPMC and the new Highmark/West Penn Allegheny integrated health system will foster more cost-effective ways

to keep people healthy. It will drive out administrative inefficiencies, and it will spur both organizations to better serve the patients, physicians and community.

Mr. McClenahan stated that in May he had been assured by Highmark's Board Chair and other independent Board members that Highmark's long-term strategy was to become an integrated delivery and financing system; and that Highmark's acquisition of West Penn Allegheny would move forward irrespective of whether UPMC renewed its contract with Highmark. In sum, this acquisition stands on its own merits — as does UPMC's decision not to renew its contract with Highmark.

Mr. McClenahan further observed that when the transaction closes, Highmark will own and control what is now West Penn Allegheny Health System. This corporate entity will assume West Penn Allegheny's \$250 million in unfunded pension obligations and \$800 million in debt obligations reaffirming Dr. Melani's previous public commitments. And Highmark will be responsible for the operations of the West Penn Allegheny hospital system.

This will be a significant challenge requiring Highmark to invest billions of dollars, but there is no regional organization with more resources, \$4.7 billion in subscriber premium reserves, or the incentive to make this important effort.

Of course, as a health care provider, UPMC will watch with interest as Highmark, which was

previously the dominant insurer with no skin in the game, now faces the same obstacles that we in the provider community have confronted for decades — inadequate reimbursement, changing technology, complex regulatory environment and the need to fundamentally alter the way care is delivered.

These challenges will only increase in the future as burgeoning deficits demand reductions in entitlements, and health reform mandates are implemented in a highly uncertain political environment.

In this context, Highmark must seek to recover its billions of dollars of investments in West Penn Allegheny or Highmark itself will be at risk. It can no longer be a neutral insurer having converted into a competing integrated system.

Clearly, UPMC can no longer contract with Highmark. To do otherwise would put our entire world-renowned enterprise at the mercy of a naturally self-interested integrated system with extraordinary commitments, and jeopardize the very access to the finest quality of care that UPMC offers.

3. One of the concerns raised at last week's hearing is what will happen to consumers in rural communities where the only hospital is a UPMC facility. How will Highmark subscribers in those areas access care?

As Mr. Balto testified, in the past year, UPMC has entered into agreements with four of the largest and most innovative national insurers. These national insurers, along with the UPMC Health Plan, will now offer unfettered access to UPMC facilities and providers. In the past, the nationals (Aetna, Cigna, HealthAmerica, and United Healthcare) have not been very visible in this region, particularly in rural markets.

But as we approach the upcoming open enrollment periods, these insurers will be very actively soliciting employers and subscribers and will provide in network access to all hospitals as Highmark did before it decided to convert to an integrated health system with West Penn Allegheny. Employers will have the option to offer one of these plans side-by-side with their current insurance, or alone assuring in network access to UPMC facilities. And most importantly, employees will have a choice of insurance, in many cases, for the first time.

4. Finally, UPMC is deeply concerned about the potential disruptions that the expiration of its contract will cause among patients, subscribers, physicians, and employers.

In fact, we are doing everything we can to minimize that disruption, including repeatedly writing to Highmark to engage in discussions about this very topic.

Unfortunately, Highmark has rebuffed those efforts. Highmark's refusal deprives both patients and subscribers of the necessary information to assure that quality care can be maintained while enhancing competition and choice in this important transition. We hope that this Committee will encourage Highmark to work with us in facilitating a smooth transition for patients and subscribers.

In closing, as Commissioner Consedine noted in his comments last week, none of us have a crystal ball with which to look into the future but we share his perspective that having two financially healthy vibrant and competitive IDFSs operating in Pittsburgh along with a collection of commercial insurers would be a good result for consumers.

Thank you.