Not losing access

In recent weeks, Highmark has told patients, employers and physicians that when its contracts with UPMC expire, Highmark subscribers will lose access to the Hillman Cancer Center, Magee-Womens Hospital of UPMC and Western Psychiatric Institute and Clinic. That statement is simply false.

Our facilities, like all UPMC facilities, are open to the subscribers of any insurance company, whether that company has a contract with us or not. Indeed, a Highmark representative was forced to admit this at a recent meeting of Allegheny County Council. He complained, however, that once its contracts expire Highmark will lose the preferred rates it has been receiving. This is Highmark's real concern, not access.

Numerous other insurers without in-network contracts authorize the use of our facilities and absorb most or all of the costs themselves. They do that to provide their subscribers with access to our world-class, specialized services. This practice is common in the insurance industry and has been for many years.

If Highmark is willing to invest billions of dollars in subscriber premiums to acquire and rebuild the West Penn Allegheny Health System, why wouldn't it be willing to spend some of those premiums on providing its subscribers with the "choice" of accessing our world-class services? Why would Highmark do any less for its subscribers than other insurance companies routinely do?

CHARLES E. BOGOSTA
President, UPMC Cancer Centers
Downtown
LESLIE C. DAVIS
President, Magee-Womens
Hospital of UPMC
CLAUDIA M. ROTH
President, Western Psychiatric
Institute and Clinic of UPMC
Oakland

UPMC
LIFECHANGINGMEDICINE

With Highmark having announced its intention to compete with UPMC as a provider, there cannot be any prospect of a contract renewal between UPMC and Highmark. Because this situation is complicated, here are some clarifying points as to what will happen when the various commercial insurance contracts between UPMC and Highmark expire on June 30, 2012:

1. As of that date, most UPMC hospitals, including UPMC Presbyterian, UPMC Shadyside, Western Psychiatric Institute and Clinic, Magee-Womens Hospital of UPMC, UPMC St. Margaret, UPMC Passavant, UPMC McKeesport, UPMC Bedford Memorial, UPMC Horizon, and UPMC Northwest will no longer be participating providers in Highmark's commercial networks.

2. As of that date, Highmark Commercial Members may be required to obtain Highmark's approval to use nonparticipating UPMC hospitals, in addition to obtaining required authorizations of medical necessity from Highmark for certain designated services.

3. For UPMC hospitals' services approved in advance by Highmark, UPMC hospitals will accept Highmark reimbursement and any applicable deductibles and coinsurance as payment in full for such services until June 30, 2013, provided this payment is made directly to the UPMC hospital.

4. The Highmark contracts governing the services of physicians employed by UPMC, as distinguished from contracts governing UPMC hospitals, are generally terminable on 60 days' notice. UPMC intends to terminate most of those contracts simultaneously with the expiration of the hospital contracts on June 30, 2012. As the time for providing termination notices approaches, UPMC will be mindful of patient needs and of the requirement to ensure transition of care for patients across physician practices and locations.

5. The issues related to the commercial insurance contracts between UPMC and Highmark do not affect Medicare (Security Blue) or Medicaid (Gateway) patients.

6. As Highmark Commercial Members approach June 30, 2012, they will need to consider and clarify their personal financial responsibility for care at UPMC facilities and by UPMC caregivers.

7. UPMC will use the time between now and the expiration or termination of the various contracts to plan an orderly transition of care for anyone who will be a Highmark Commercial Member after June 30, 2012.

8. Five major health insurance plans in western Pennsylvania — UPMC Health Plan, Aetna, CIGNA, HealthAmerica, and United Healthcare — will ensure access to and continuation of care through all UPMC physicians and hospitals. Of the major insurance plans, only Highmark's will be out of network.

9. Highmark commercial insurance contracts with UPMC Hamot, UPMC Mercy and Children's Hospital of Pittsburgh of UPMC expire on June 30, 2013, June 30, 2015 and June 30, 2022, respectively.

10. UPMC recognizes the importance to the community of planning and cooperation through this transition period. As more information and details about the transition become available, we will advise all the affected constituencies.

HIGHMARK.

Maureen L. Hogel
Executive Vice President and Chief Legal Officer

May 5, 2011

VIA HAND DELIVERY

W. Thomas McGough, Jr.
Senior Vice President & Chief Legal Officer
UPMC Health Plan
600 Grant Street, 62nd Floor
Pittsburgh, PA 15219

Dear Tom,

As you know, Dan O'Malley of Highmark and David Farner of UPMC have been exchanging correspondence for several weeks, but getting nowhere. I am hoping you and I will have greater success. Highmark just wants to know if UPMC is willing to continue negotiations on new contracts to replace those that expire on July 1, 2012 (with an obligation on UPMC's part to continue accepting Highmark reimbursement as payment in full for Highmark members through June 30, 2013). Whether or not we are talking to, or ultimately contract with, WPAHS has no bearing on our ability and eagerness to continue negotiations with UPMC.

We were recently advised that on May 2, 2011, employees at Magee Hospital were instructed to begin telling patients that, as of June 2012, Magee would no longer accept Blue Cross/Blue Shield insurance. If someone instructed employees in this way, it is not only a violation of our current contract, but it also suggests UPMC does not intend to continue negotiating.

I would appreciate it if you would just give us a definitive answer. It's a straightforward question that can be answered in an equally straightforward manner. If you are willing to continue negotiations, please send us proposed meeting dates as soon as possible.

Yours Truly,

Maureen L. Hogel

Maureen L. Hogel

UPMC

Legal Department

U.S. Steel Tower, Floor 57
600 Grant Street
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T 412-647-8637
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May 10, 2011

Via Hand Delivery and U.S. Mail

Ms. Maureen Hogel, Esq.
Executive Vice President & Chief Legal Officer
Highmark, Inc.
Fifth Avenue Place
120 Fifth Avenue
Pittsburgh, PA 15222-3099

Dear Maureen:

Thank you for your letter of May 5.

I have been aware, of course, of the correspondence between Dan O'Malley and David Farner and believe that David has been very clear about any remaining potential for further negotiations. We also understand completely Highmark's ability and eagerness to continue negotiations with UPMC while simultaneously transforming itself into a provider of healthcare and a competitor to UPMC in Western Pennsylvania.

That said, we believe Highmark's provider strategy renders a contract between Highmark and UPMC unattainable. We simply could not agree to a regime that would perpetuate your organization as the region's dominant payer while it simultaneously spent hundreds of millions of dollars to acquire or build a competing provider network. Were that to occur, Highmark would inevitably use its dominance in the insurance market to favor the providers it owned, to the detriment of UPMC and other providers in the region.

As for employees of Magee Hospital being instructed to tell patients that Magee would not be accepting Highmark insurance after June 30, 2012, no such instructions were authorized or, to my knowledge, given. On the contrary, we have been very careful about what our employees are authorized to say about UPMC's transition to non-participating provider status as of July 1, 2012.

One point on which I think we can agree is the importance of communicating clearly and accurately with all interested constituencies about the effects of non-renewal—and doing so as soon as possible. It's unfair for the community to mistakenly believe this matter will be settled at the last minute. Clearly communicating what the expiration of the contracts means would seem to be a mission you and I could share.

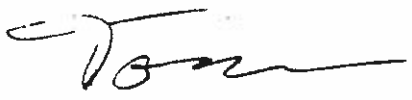
In the spirit of preparing for this eventuality, perhaps we can agree upon a statement along the following lines:

"In the event that the various commercial insurance contracts between UPMC and Highmark expire on June 30, 2012,

- As of that date, most UPMC Hospitals, including UPMC Presbyterian Shadyside, Magee-Womens Hospital of UPMC, UPMC St. Margaret, UPMC Passavant, UPMC McKeesport, UPMC Bedford, UPMC Horizon, and UPMC Northwest will no longer be participating providers in Highmark's commercial networks.
- As of that date, Highmark Commercial Members will be required to obtain Highmark's approval to use non-participating UPMC Hospitals, in addition to obtaining required authorizations of medical necessity from Highmark for certain designated services.
- For UPMC Hospitals' services approved in advance by Highmark, UPMC Hospitals will accept Highmark reimbursement and any applicable copayments as payment in full for such services until June 30, 2013, provided this payment is made directly to the UPMC Hospital.
- The Highmark contracts governing the services of UPMC physicians, as distinguished from UPMC hospitals, are generally terminable on 60-days notice. To date, no notice to terminate those contracts has been issued. If those contracts are terminated effective June 30, 2012, in whole or in part, the availability of UPMC physicians to Highmark's Members at current contract rates would be limited or foreclosed after that date.
- As Highmark Commercial Members approach June 30, 2012, they will need to consider and clarify their personal financial responsibility for care at UPMC facilities and by UPMC caregivers.
- Highmark and UPMC will use the next thirteen months prior to the expiration or termination of the various contracts to plan an orderly transition of care for everyone who will be a Highmark Commercial Member after June 30,2012.
- Highmark and UPMC recognize the importance to the community of working together to transition our relationship. As more information and details about the transition become available, we will advise all the affected constituencies, and particularly our patients and Members."

I claim no pride of authorship. But the benefits of communicating promptly, candidly and clearly to all the affected parties over the next thirteen months outweigh, in my opinion, the difficulty of coming together on the message. I would therefore welcome your thoughts.

Very truly yours,



W. Thomas McGough, Jr.
Sr. Vice President and Chief Legal Officer

HIGHMARK.

May 17, 2011

Mr. W. Thomas McGough, Jr.
Sr. Vice President and Chief Legal Officer
UPMC
Legal Department
U.S. Steel Tower, Floor 57
600 Grant Street
Pittsburgh, PA 15219

Dear Tom:

Thank you for your prompt and very clear response. I sincerely appreciate it.

While I agree that we want our messages to our members and your patients to be clear and honest, at this time Highmark cannot join with UPMC in delivering those messages. We very much disagree that a contract between the parties is unattainable because of our discussions with WPAHS. Nor do we believe that is UPMC's reason for refusing to negotiate.

Every action UPMC has taken over the last several years has been directed at destroying provider competition, and the lack of meaningful competition will have a detrimental impact on Western Pennsylvania. UPMC's refusal to negotiate with Highmark is targeted to force Highmark from trying to retain WPAHS as a true competitor to UPMC.

As I stated in my last letter, Highmark remains ready and willing to negotiate with UPMC. If your position changes, please let me know.

Sincerely,

Maureen L. Hogel

Maureen L. Hogel
Executive Vice President and
Chief Legal Officer

UPMC

May 24, 2011

W. Thomas McGough, Jr.
Senior Vice President
Chief Legal Officer

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Via Hand Delivery and U.S. Mail

Ms. Maureen Hogel, Esq.
Executive Vice President & Chief Legal Officer
Highmark, Inc.
Fifth Avenue Place
120 Fifth Avenue
Pittsburgh, PA 15222-3099

Dear Maureen:

Thank you for your letter of May 17.

Whatever our ultimate disagreements, I too appreciate the clarity our exchange has brought to our respective positions, and particularly Highmark's intention to acquire or otherwise subsidize WPAHS as a "true competitor to UPMC."

As you surely anticipated, however, I must take issue with your suggestion that UPMC has done, or for that matter even could do, anything to "destroy[] provider competition" in Western Pennsylvania. UPMC has for decades competed fairly and energetically with the many, many providers of health care in this region, including AHERF and its successor, WPAHS. Indeed, the mismanagement of WPAHS that led to its current perilous position was, as you know, in no way attributable to UPMC.

I also am disappointed that you declined to help craft a consistent message to give to our various constituencies about the expiration of our contracts. It was your letter of May 5, after all, that had expressed concern about statements that you (erroneously) alleged were being disseminated at Magee Hospital. UPMC still believes that prompt and candid communications regarding the impact of the non-renewals are critical and therefore intends to use the following bullet points as a foundation for our communications, both internal and external, beginning May 27:

When the various commercial insurance contracts between UPMC and Highmark expire on June 30, 2012,

- As of that date, most UPMC Hospitals, including UPMC Presbyterian Shadyside, Magee-Womens Hospital of UPMC, UPMC St. Margaret, UPMC Passavant, UPMC McKeesport, UPMC Bedford, UPMC Horizon, and UPMC Northwest will no longer be participating providers in Highmark's commercial networks.

- As of that date, Highmark Commercial Members will be required to obtain Highmark's approval to use non-participating UPMC Hospitals, in addition to obtaining required authorizations of medical necessity from Highmark for certain designated services.

- For UPMC Hospitals' services approved in advance by Highmark, UPMC Hospitals will accept Highmark reimbursement and any applicable copayments or deductibles as payment in full for such services until June 30, 2013, provided this payment is made directly to the UPMC Hospital.

- The Highmark contracts governing the services of UPMC physicians, as distinguished from UPMC hospitals, are generally terminable on 60-days notice. If those contracts are terminated effective June 30, 2012, in whole or in part, the availability of UPMC physicians to Highmark's Members at current contract rates would be limited or precluded after that date.

- As Highmark Commercial Members approach June 30, 2012, they will need to consider and clarify their personal financial responsibility for care at UPMC facilities and by UPMC caregivers.

- UPMC will use the next thirteen months prior to the expiration or termination of the various contracts to plan an orderly transition of care for anyone who will be a Highmark Commercial Member after June 30, 2012.

- UPMC recognizes the importance to the community of planning and cooperation through this transition period. As more information and details about the transition become available, we will advise all the affected constituencies.

If you believe those bullet points are incorrect in any way, or if you have any other concerns about UPMC using them as a foundation for internal and external communications regarding the non-renewal, please let me know in writing by the close of business on May 26.

Very truly yours,

W. Thomas McGough, Jr.
Sr. Vice President and Chief Legal Officer

UPMC

July 8, 2011

W. Thomas McGough, Jr.
Senior Vice President
Chief Legal Officer

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Via Hand Delivery and U.S. Mail

Ms. Maureen Hogel, Esq.
Executive Vice President & Chief Legal Officer
Highmark, Inc.
Fifth Avenue Place
120 Fifth Avenue
Pittsburgh, PA 15222-3099

Dear Maureen:

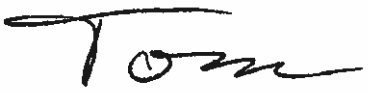
Now that Highmark has announced that it will be acquiring West Penn Allegheny Health System and that it will become a hospital system with an insurance arm, it is absolutely clear that there will be no renewal or extension of the contracts placing UPMC hospitals and physicians in Highmark's network. Therefore, I'm writing once again to propose that the appropriate representatives of our two companies meet to discuss how to manage the necessary transition in the best interest of patients and the community at large.

Given the certainty of contract expiration, such discussions are even more important now than they were when I initially proposed them back in May. I note by way of example the statement by Highmark's Michael Weinstein in Thursday's Post-Gazette that "the commercial hospital contracts require that physician services continue to be available to Highmark members through June 30, 2013." This statement is misleading and incorrect in that the hospital contracts explicitly distinguish between hospital services and physician services and require provision of only hospital services during the run-off period.

There are numerous other issues that we could resolve regarding the non-renewal of our contracts were we to approach them cooperatively and most importantly with the best interests of the community in mind. Among those might be the preservation of Medicare and Medicaid coverage, the availability of specific UPMC facilities or physician services during any transition period, protocols for the transfer of medical records, and guidelines for handling particular instances of ongoing treatment or other hardship.

In sum, I want to reiterate my earlier request that we sit down and plan the unwinding of the contracts. There should be ample time to enable a smooth, seamless transition, but only if we start discussions now. I look forward to hearing from you and initiating this process.

Very truly yours,



W. Thomas McGough, Jr.
Sr. Vice President and Chief Legal Officer

HIGHMARK.

July 13, 2011

VIA HAND DELIVERY

W. Thomas McGough, Jr.
Senior Vice President
Chief Legal Officer
UPMC
600 Grant Street
Pittsburgh, PA 15219

Dear Tom:

This is in response to your letter to me of July 8th regarding what you describe as the "necessary transition" of Highmark customers to UPMC in the wake of your unlawful termination of our contracts and accompanying publicity campaign.

Your invitation to cooperate in the unwinding of our contractual relationships is nothing more than a request for us to capitulate to and become complicit in your violations of the law. We decline to do so. We've told you many times, and we repeat again, that we are ready to meet with you at any time to discuss a contract that will provide full coverage for UPMC facilities and doctors past the presentation termination date (including the run-out period) of June 30, 2013.

Meanwhile, UPMC's misleading and confusing public statements about its unlawful actions and their consequences are causing us damage and irreparably harming our relationships with our members. Therefore, this is to inform you that today we have filed a Complaint and Motion for Preliminary Injunction in the United States District Court for the Western District of Pennsylvania to remedy these wrongs. I enclose a courtesy copy of the papers.

We regret the necessity of seeking court intervention on these issues but UPMC's actions leave us, literally, no choice.

Sincerely,

Maureen L. Hogel

Enclosures

UPMC

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Chief Legal Officer

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August 1, 2011

VIA HAND DELIVERY

Maureen L. Hogel
Executive Vice President and Chief Legal Officer
Highmark, Inc.
Fifth Avenue Place
120 Fifth Avenue
Pittsburgh, PA 15222-3099

Re: UPMC Hospitals' Request for Interpretation of Hospital Agreements and Managed Care Hospital Agreements

Dear Maureen:

Our companies obviously have starkly different understandings about their respective rights and obligations upon the June 30, 2012 expiration of their eight hospital contracts for UPMC Presbyterian Shadyside, Magee-Womens Hospital, UPMC Northwest, UPMC St. Margaret, UPMC Passavant, UPMC Horizon, UPMC Bedford, and UPMC McKeesport. As Highmark's website, its statements to the media and the lawsuit it recently filed against UPMC make clear, we clearly disagree on how and what these hospitals may communicate with patients regarding the unwinding of the UPMC and Highmark relationship.

Notwithstanding the overtures I made to discuss these differences in my May 10 and 24 letters, we have come no closer to a common understanding of what the world looks like after June 30, 2012. The least we can do is sit down and discuss how the process will unfold. We owe that much to our patients and the community at large.

As you are likely aware, the eight hospital contracts at issue include Dispute Resolution provisions. *See, e.g.*, UPMC Presbyterian, Managed Care Hosp. Agreement (June 28, 2002) at Part IV, Section F, Subsection 3 ("Interpretation of the Agreement"); UPMC Presbyterian Shadyside, Amendment (Nov. 3, 2006) at Part IV, Section C. Accordingly, on behalf of the eight UPMC Hospitals listed above, I am requesting under Subsection 3 of those Dispute Resolution provisions a meeting to discuss the interpretation of the contracts. While this subsection requires that a meeting occur within 45 days of this letter, my hope is that we could meet sooner than that given the importance of these issues to the community. I would be happy to host a meeting at our offices.

The provisions we would like to discuss at this meeting include those sections titled:

- "Other Hospital Ventures" contained in Part I, Section D of the Hospital Agreements and Part I, Section F of the Managed Care Hospital Agreements;
- "Termination" contained in Part II, Section B of the Hospital Agreements and Managed Care Hospital Agreements;
- "Hospital Service" contained in Part I, Section B of the Hospital Agreements and Part I, Section C of the Managed Care Hospital Agreements;
- "Physician Services" contained in Part I, Section C of the Hospital Agreements and Part I, Section D of the Managed Care Hospital Agreements; and
- "Use of Name and Other Identifying Information" contained in Part I, Section G of the Hospital Agreements and Part I, Section J of the Managed Care Hospital Agreements.

I appreciate your prompt attention to this matter and hope we can schedule a meeting at your earliest convenience.

Very truly yours,

W. Thomas McGough, Jr.

HIGHMARK.
An Independent Licensee of the
Blue Cross and Blue Shield Association

August 5, 2011

VIA HAND DELIVERY

W. Thomas McGough, Jr.
Senior Vice President
Chief Legal Officer
UPMC
U.S. Steel Tower, Suite 6241
600 Grant Street
Pittsburgh, PA 15219

Dear Tom:

I received your letter of August 1, 2011 in which you invoke the Dispute Resolution provisions in the hospital agreements between Highmark and certain UPMC hospitals, ostensibly for the purpose of calling a meeting to discuss our interpretation of several provisions of the agreements that are relevant to the litigation commenced by Highmark against UPMC and the hospitals.

When the parties negotiated these agreements, they certainly did not intend that one of them could use this provision to obtain discovery of the other party's legal theories outside of the context of court proceedings. In any event, we set out our written interpretation of the provisions of the contracts in question in our complaint and the accompanying brief in support of our motion for preliminary injunction. Another copy is attached for your review.

Given your statements earlier this week that the only issues UPMC is willing to discuss with Highmark are those related to contract termination, it is clear that this is the real motive behind your request and just another piece of your media strategy. Regardless of my skepticism of your motives, we will honor our contractual obligations to meet in accordance with the dispute resolution process if that is what you require. However, if you insist on having such a meeting, we will simply provide you with another copy of our legal proceedings as permitted under such provisions. Please advise.

Sincerely,

Maureen L. Hogel
Executive Vice President
Chief Legal Officer

Attachments

Imagine a better health care system in Pittsburgh

Dropping Highmark will allow UPMC to introduce more choices, argues UPMC's **TOM McGOUGH**

A lifetime spent in Pittsburgh has armed me with three topics guaranteed to get a conversation started: change, health care and large nonprofits acting like businesses.

Change? We're against it. Unless, of course, someone goes way out on a limb and proves that it's a good thing. Then we really like it.

Health care? We're for it, particularly where it's world class, readily accessible and creates tens of thousands of jobs in the region. But it's too expensive.

Nonprofits acting like businesses? We're highly suspicious, to say the least. After all, they're exempt from some taxes and are supposed to put the public interest ahead of pursuing profits. As Sally Kalson expressed it in her Post-Gazette column last Sunday, "[T]he Pittsburgh Symphony doesn't try to take down the opera."

When all three of those topics get mashed together, as they have in the face-off between Highmark and University of Pittsburgh Medical Center, we can expect a torrent of opinionating. So, as chief legal officer of UPMC, I haven't been surprised by either the amount or the passion of the public debate that has occurred. What has surprised me, however, is how shortsighted some of the commentary has been, particularly from quarters where more imagination usually resides.

I was stunned, for example, by a recent Post-Gazette editorial that posed two supposedly unthinkable propositions: "Imagine Highmark insurance policies that don't cover care by UPMC doctors. Imagine UPMC hospitals where Highmark insurance is no good." You would have thought they were asking us to imagine a world where the Pirates were above .500 in mid-June.

Wait. That last one really happened. And so could a world where Highmark isn't the region's dominant health insurer, the gatekeeper for more than 65 percent of the care delivered in Western Pennsylvania.

I realize that concept will take a while to settle in, even though the last decade hasn't exactly been a picnic for health insurance subscribers. Unfettered by national competition, Highmark has imposed double-digit premium increases, while the rates it paid to UPMC increased only at the rate of inflation. Ms. Kalson accurately, if unintentionally, captured our collective ambivalence about Highmark's performance as gatekeeper when she demanded, "I want to pick my doctors of my own free will and have their services covered by the insurance that's already costing a king's ransom."

How did we get to this strange place?

The 10-year contracts that keep UPMC hospitals and doctors in Highmark's service network expire in mid-2012, so the companies began discussing renewal more than a year ago. Recently, Highmark has been saying that UPMC demanded a 20 percent increase in rates. Or was it 40 percent? Highmark can't seem to remember, probably because it was neither.

In fact, after months of halting discussions, UPMC and Highmark reached an understanding that an independent third party would advise both companies on the market rates in comparable cities for similar services. That understanding became completely irrelevant, however, when the press revealed in April that Highmark was buying West Penn Allegheny Health System to compete directly with UPMC and all the other hospitals in this region.

Why was that a showstopper? Remember Highmark's historical role as everyone's gatekeeper. If Highmark spends, say, $2 billion of its hard-earned subscriber premiums to acquire and rebuild a twice-failed hospital system, it's going to make darned sure those hospital beds are filled. Every other hospital for which it had been gatekeeping would lose patients accordingly.

In addition, premiums Highmark earned on any UPMC contract would wind up funding Highmark's own hospital system, making such a deal illogical, unrealistic and ultimately anticompetitive. So UPMC will not reappoint Highmark as gatekeeper and instead will compete head-on, hospital system to hospital system.

As disconcerting as competition among nonprofits may seem, nothing about nonprofit status exempts a company from market forces or antitrust regulation -- any more than it exempts it from the law of gravity. If the Pittsburgh Symphony announced that it was going to produce and market its own opera series -- in the name of operatic choice, of course -- few would criticize the Pittsburgh Opera if it let any contracts with the symphony expire and looked about for new musical partners.

As Highmark transforms itself into a hospital system, let's at least give it credit for competitive imagination. Consider what the market might look like a few years from now.

Four large national insurers (Aetna, CIGNA, HealthAmerica and United Healthcare) have contracted with UPMC to include its doctors and hospitals in their existing networks. UPMC's own health plan offers a network featuring UPMC hospitals and doctors as well as many community hospitals. Highmark offers a network featuring WPAHS and other community hospitals. So if you want WPAHS, choose Highmark insurance. If you want UPMC, choose the UPMC Health Plan or any of the national insurers. And if you want both, choose any of the national insurers, which will offer those options and more.

The transition will, of course, involve some disruption. But the really disruptive event is Highmark's impending self-transformation into a hospital system; the other disruptions are just the inevitable aftershocks, and mild ones at that.

Employers will have to make sure they offer their employees the insurance options they need. Individuals will have to choose their plans based in part upon where they want to get their health care. If people change doctors rather than changing insurance plans, electronic records will have to be carefully transferred. But we have months to accomplish all those things and six different insurers to get the messages out. They will, after all, be competing for your business on price, quality and access.

Any disruption will also be confined to the "commercial" market; Medicare and Medicaid plans will not be affected. In that commercial market, individual issues will undoubtedly arise relating to continuity of care, ongoing courses of treatment and longer-term commitments extending beyond the expiration date. But the contracts between UPMC and Highmark are designed to expire someday and therefore address many of these complexities. Others can be managed cooperatively, in the best interests of the patients and the community, as they arise.

Our health care system, both locally and nationally, is changing rapidly. Closing our eyes and digging in our heels is not an option. The current rift between Highmark and UPMC actually provides us with an opportunity to change things for the better.

Imagine that.

Tom McGough is senior vice president and chief legal officer of UPMC.

DR. FRAN SOLANO

Pittsburgh needs more insurers

Physicians should speak up about problems with Highmark

It has been interesting to observe the public's response to the ongoing clash between Highmark and UPMC. The comments of most citizens, labor groups and employer groups have been predictable and understandable. However, the most interesting reaction, or lack thereof, has been the physician response. Aside from remarks by the president of the Allegheny County Medical Society, there has been little physician comment in our local newspapers.

Doctors should be speaking up, because we have an enormous stake in this dispute. Most of us are concerned about possible disruptions that our patients and our practices may experience. Many of us, particularly in primary care, have long-standing relationships with the people we treat and consider them friends as well as patients. It would be a gut-wrenching experience to lose them.

In my view, health care in Pennsylvania has been disadvantaged by the tactics of Highmark over the last 20 years. Employers have suffered double-digit inflation in their premiums, but physicians have seen little increase in reimbursements. We have trouble recruiting gynecologists, neurosurgeons and orthopaedic surgeons throughout the state, especially in rural areas, because of reimbursement issues.

If it weren't for UPMC's investments in Western Pennsylvania, we would have a great shortage of these crucial specialists here as well. In addition, UPMC has also delivered specialty services, emergency medicine services and telemedicine stroke services to rural and outlying areas in Western Pennsylvania like Bedford and Mercer counties.

Primary care is also struggling because of reimbursement issues. More than 40 percent of primary care physicians get no "pay-for-performance" dollars from Highmark, and this will only get worse for us over the next year with the changes in Highmark's pay-for-performance program.

Onerous oversight has been imposed on trained professionals, requiring physicians to obtain "permission" for diagnostic studies in radiology and now cardiology. And Highmark's policies as the dominant insurer have polarized specialists and primary care providers, creating friction and barriers to collaboration.

Highmark's $3.7 billion in reserves, representing steadily growing premium payments and savings harvested from outsourcing Pennsylvania jobs, certainly have not been used to make delivery of quality health care easier for providers or patients.

Physicians must wake up to the reality that we need competition in health insurance in Pennsylvania. This will be best in the long run for both patients and providers.

There no doubt will be some temporary pain, but soon we will have a level playing field, with multiple major insurers participating. We are already beginning to see our employer groups benefiting from this competition over the last few months with stabilization of premiums. One of my patients told me he got the "best deal" ever on insurance for his company with more than 150 employees — stabilization of his premiums for the next three to four years.

Such a competitive environment will enable our physician base to grow and our hospitals to survive, improving health care quality and access for everyone. Surely that's worth speaking up for.

Dr. Fran Solano is president of UPMC's Community Medicine Division, a network of more than 300 physicians, and a clinical professor of medicine at the University of Pittsburgh School of Medicine.

PITTSBURGH TRIBUNE-REVIEW

Cigna to hire 164 as part of its expansion

By Alex Nixon
PITTSBURGH TRIBUNE-REVIEW
Friday, July 22, 2011

Insurance company Cigna Corp. plans to hire 164 new workers for its Pittsburgh operations, the company said on Thursday.

Cigna is seeking nurses, behavioral clinicians, health educators, personal advocates and others as part of the 16 percent expansion in its work force here, according to a statement from the company. It will hold job fairs next week and late next month for potential candidates.

The new positions are planned for Cigna's Integrated Personal Health and Your Health First, which help customers manage health conditions, including making sure they take medications, understand and manage risk factors and receive appropriate preventive care, the statement said.

Cigna, which in February inked an expanded contract with UPMC, said the hiring in Pittsburgh is part of a larger recruitment effort throughout the country as demand grows for its health-management services. A spokeswoman for Cigna was unable to say yesterday if the Pittsburgh expansion was related to its contract with UPMC.

The company employs 469 workers in offices on Carson Street in the South Side and 548 workers at an office complex in North Fayette. Cigna said in April that it plans to move all its South Side workers to North Fayette by the end of summer 2013.

Last week, Cigna said its U.S. headquarters, which had been in Philadelphia since 1982, would move to Connecticut in a $50 million package of tax credits.

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Insurance wars: Highmark and UPMC battle with customers for deals

Are Highmark and UPMC in a price war?

Sunday, June 05, 2011
By Bill Toland, Pittsburgh Post-Gazette

Health insurers swear they aren't doing it.

Everybody else says they are.

It's called "buying business," and in the health insurance industry, it's a somewhat pejorative term. It means that insurance carriers are offering below-market premium rates to grab customers. That's a good deal for consumers in the short run, but in the long run, critics and brokers say, policy prices ought to reflect the cost of care.

So are Highmark Inc., Pittsburgh's dominant insurer, and UPMC Health Plan engaging in a price war?

One broker relayed the following account: UPMC Health Plan offered one of its midsize client groups a renewal rate reflecting a 26 percent increase. Highmark quoted similar coverage at a 12 percent increase.

Then UPMC Health Plan countered with an even lower price and a three-year deal for the group.

The maneuvering might not have been unusual were it not for this fact: "That group," the broker said, "is a dog. ... Everybody's afraid to lose business."

That's what happens when the stakes are high -- insurers cut deals that might not have been made in other years and underwriting discipline goes out the window.

The jockeying for customers comes against the backdrop of stalled contract negotiations between the two Pittsburgh health giants and in advance of 2014, when new federal insurance laws kick in and carriers won't be able to medically underwrite group policies or use other risk-reduction strategies.

Generally, signing up group plans with lower use rates and younger employees makes the best business sense, because those plans are the most predictable from a risk sense.

"I would expect these carriers to go after these groups that are the most actuarially attractive," said Tom Henschke, of SMC Business Councils, Churchill. "They are going to go firm up their books with the best risks they can," he said, in order to minimize payouts and utilization heading into unpredictable regulatory times.

But a recent deal between UPMC Health Plan and a regional health care cooperative suggests otherwise, and could be indicative of a "price war" between the University of Pittsburgh Medical Center's insurance arm and Highmark and even some fringe health carriers, according to brokers and experts watching the situation.

UPMC Health Plan's new partnership with COGCare -- a health care purchaser for local councils of governments representing more than 400 local government entities -- has the potential to add thousands of customers to the health plan's roster by year's end. But the partnership came at a price.

That price is 3 to 4 percent below "standard UPMC Health Plan pricing," according to COGCare's own description of the deal. A similar deal with the Employers Medical Access Partnership cooperative (or E.MAP), already in place, offers coverage at 3 to 5 percent below the company's usual pricing.

UPMC Health Plan's Kim Cepullio, executive director of sales and product development, said the deals made sense.

"We're not discounting," she said. "This was a competitive process with other bidders" who responded to the COGCare proposal request. "E.MAP has been a proven winner for us ... we are [not] out there buying business or out there offering discounts."

Some brokers are skeptical, saying that municipal plans -- which tend to cover older workers -- generally aren't attractive groups and aren't the sort of groups that an insurer should be offering "discounts."

Others say discounts are in the eye of the beholder.

"When I had the better rates, it was never 'buying business.' It was because we were the smarter underwriters," joked Joe Taduda, principal of Health Strategy Associates, a consultancy based in Connecticut.

"Buying business usually refers to the other guy's prices."

A new health care landscape?

The price war chatter comes as Highmark explores a partnership with, or acquisition of, the struggling West Penn Allegheny Health System, and as UPMC -- the hospital system, not the health plan -- is signing contracts with a variety of national, for-profit insurers, giving them wider access to the Pittsburgh market and to UPMC facilities and doctors.

Those insurers -- Aetna, CIGNA and United HealthCare -- could also bring new products, and price pressures, to the Pittsburgh market, and specifically upon Highmark, which still has the bulk of the commercial policy market.

Aetna, in particular, was able to strike a good reimbursement deal with UPMC providers, and added all of the UPMC hospitals not currently in its access network, meaning the $34 billion, Connecticut-based health insurance giant may finally be able to make some headway locally.

In short, it could be a recipe for more competition and better prices, at least for some clients.

"Price is king right now," said Dave Straight, founder and CEO of the Benefits Network, a benefits broker.

"I've seen those [wars] play out many times over the years."

It could also be a recipe for new products. One such product, at least on Highmark's end, could be a limited, tiered policy that would steer customers to lower-cost providers -- presumably away from UPMC's highest-cost hospitals and toward West Penn Allegheny Health System, making West Penn its primary provider in that product line.

UPMC's pricier hospitals, under such a product, could remain on the Highmark menu, but only as a "premium," more expensive tier, or as an out-of-network option.

The result could resemble Highmark's defunct CommunityBlue product, a lower-cost, managed product popular in the Pittsburgh region until Highmark scrapped it as part of its 2002 reimbursement deal with UPMC.

This time around, Highmark's hand might be forced not just by UPMC, but by Aetna's fortified presence here. Aetna has made transparency in pricing a key part of its marketing, offering price and efficiency data in a variety of markets. Physician payments, hospital costs and per-unit medical procedure costs are made available to policyholders and the employers that furnish the plans to their employees.

The insurance provider plans to do the same in Pittsburgh, said Aetna spokesman Walt Cherniak.

"More people are spending more of their own money out-of-pocket, regardless of the health plan they have," in the form of higher deductibles, co-pays and health savings account outlays, he said. As a result, they want to know what they're paying for and why, but that information has been tough to find.

"It's been a great mystery," Mr. Cherniak said.

A Highmark spokesman said the company has no immediate plans to publish such information. But when Aetna does so, other insurers may be forced to become more transparent, and competitive, on price.

At least, that's what some brokers are hoping for.

"Do we really understand what the cost of care is? Do we really understand the value of the dollars that we're spending?"

asked Chris Whipple, executive director of the Pittsburgh Business Group on Health. "Nobody really has a strong understanding" at this point, she said.

Race to the bottom?

Highmark's internal reaction to the UPMC Health Plan deal with COGCare was one of skepticism. One official, in an email obtained by the Post-Gazette, expressed surprise that UPMC Health Plan would "throw money away" and noted that "in a price war, the race to the bottom is swift and dangerous."

Meanwhile, Highmark has set aside millions -- about $20 million, according to those claiming familiarity with the strategy -- to cover the cost of combatting UPMC Health Plan prices, as well as quotes offered by other competitors in the market.

One Highmark employee said the company's sales staff has been authorized to do "whatever it takes" to grab and retain policyholders over the coming months, even if it means offering renewal rates that are below-market.

Highmark spokesman Michael Weinstein, in an email, said the price cuts were partly due to a "very competitive" marketplace, and partly because of utilization: "Highmark has been able to offer lower premium increases compared to some previous years because of lower medical claims trends," he said.

"The marketplace is currently very competitive, from a pricing standpoint." In a letter to its customers, UPMC acknowledged the same: "By virtue of a newly competitive health insurance market, rate increases to employers and health insurance subscribers will soon begin to decline. You already may have seen this, and no doubt will see it as we approach the open enrollment period this fall," the letter said.

Mr. Weinstein also noted that Highmark, in 2010, shifted some small employer health insurance groups out of the mainline company (Highmark Blue Cross Blue Shield, a nonprofit) and into its Highmark Health Insurance Co. subsidiary, giving the company greater price flexibility. Observers said price cuts may also be driven partly by Highmark's huge revenue and profit gains in 2010.

Those numbers -- $14.6 billion in revenue last year, with $462.5 million in net income -- were an important show of strength for the insurer, but the numbers were also difficult for customers to stomach.

"They were a bit embarrassed by their [good] performance," said James McTiernan of Triad USA, a Pittsburgh-based benefits consulting firm. As a result, he said, Highmark will have to be more flexible on pricing and quotes this year. Industry observers say pricing acrobatics aren't atypical, whether they occur before, during or even after a major contract negotiations. Trying to beat your competitor on price is part of doing business, for an insurer or anyone else.

It's also not unusual for insurance companies -- not just these two -- to offer one-time, cut-rate prices to group plans in an effort to get them to sign on; then, premiums increase in the second or third year of the contract to make up for what was given away in year one. Customers sometimes take advantage of this by jumping from carrier to carrier in search of better premium quotes.

Price wars come in cycles. During some cycles, health insurers are more focused on collecting premium money, hoarding cash and preserving price integrity.

In other cycles, companies are more concerned with retention and membership, and pricing becomes more fungible.

Locally, we're in a competition-and-retention cycle, said Mr. Taduda, of Health Strategy Associates.

"They're trying to get more members, to put themselves in a better bargaining position," he said.

Monkeying with premium rates during hyper-competitive sales cycles, though, makes it difficult for insurers to claim later that premium increases are caused by escalating medical prices or claims history.

"This notion that they actually compute a rate based on customer's claims goes out the window," said one longtime observer of the Highmark-UPMC negotiations. The 10-year reimbursement deal between the two companies -- which sets the rates that Highmark pays for UPMC health services -- expires next year, and both sides say the negotiations are at a

standstill.

But just because your neighbor, or the business down the road, got a softer-than-usual premium increase doesn't mean that you will, too.

"The best prices are [still] going to the best risk in the marketplace," to the groups "offering the lowest medical loss ratios," said SMC's Mr. Henschke. "I can't think everybody is going to get a price break."

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post-gazette.com Pittsburgh Post-Gazette BUSINESS

Insurers see opportunity in UPMC-Highmark split

Picture changing as giants argue

Friday, July 29, 2011
By Steve Twedt, Pittsburgh Post-Gazette

The contract linking the UPMC health system and insurer Highmark may not expire for nearly a year, but there are signs the local health insurance landscape is already changing.

Aetna, one of four insurers that agreed to expanded contracts with the University of Pittsburgh Medical Center this year, recently signed up Education Management Corp. in a deal to take over its exclusive contract now held by Highmark. Beginning Jan. 1, that adds 22,000 members to Aetna's 85,000 Pittsburgh-area member pool, and the insurer expects to pick up 20,000 or so additional new members in the market by year-end.

"It's the beginning of what we hope will be a transformation in how consumers get care in Pittsburgh," said Brian J. McGarry, market vice president for Aetna's national accounts. "The employers I've spoken to, bar none, are very excited about us introducing this to the market."

Other insurers, too, say, they are encouraged by employers' interest since they signed on with UPMC.

But whether all that expressed interest and optimism ultimately translates into a significant incursion into Highmark's dominant market share remains to be seen. A just-completed survey of its members by the Pittsburgh Business Group on Health found that only 13 of 32 responding employers had sent out requests for proposals to insurers.

"I do think most of our clients are sitting back and waiting," said Dick Farrell, president of TJ&S insurance brokers on Mount Washington.

Highmark is starting from a strong position. The insurer has 4.8 million members locally, far exceeding UPMC Health Plan membership, which now tops 1.5 million. Most everybody else is below 100,000.

Highmark spokesman Michael Weinstein said the region's largest insurer "had a very good July renewal period, with gains in the small group business and some new business gains.

"We believe our customers will stay with Highmark because their primary concern remains rising health care costs," said Mr. Weinstein.

Tom Tomczyk, principal and health benefits expert for Buck Consultants, Downtown, agreed that area employers are placing a premium on the cost of their premiums.

And that may make them willing to listen to a pitch from Aetna or Cigna or United Health Care or Health America.

The UPMC-Highmark dispute has piqued employers' curiosity about how the local market will change, and Mr. Tomczyk said some clients wanted to find out what the national insurers would charge. "They figure it doesn't hurt anything to test the market. What's it going to cost if I move to them?"

UPMC insists there will be no renewal of its 10-year contract with Highmark now that Highmark intends to enter the provider market by acquiring the West Penn Allegheny Health System. Highmark, for its part, says it still wants to negotiate a deal so its members will have continued in-network access to UPMC physicians and facilities.

The expanding role of major national insurers in the Pittsburgh market could present some interesting new dynamics.

For one, employers that operate throughout the United States, such as Education Management with its for-profit schools, may be drawn to the national insurers because they regularly navigate the different regulations and requirements of the different states. A single national carrier could greatly simplify that situation.

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Highmark-UPMC battle could save Erie members money

By DAVID BRUCE, Erie Times-News
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You can hear the smile in Ralph Pontillo's voice as he talks about the rift between Highmark Blue Cross Blue Shield and the University of Pittsburgh Medical Center.

Pontillo, chief executive of the Manufacturer & Business Association, is convinced the fight between western Pennsylvania's largest private health insurer and the region's biggest health system will reduce health-insurance costs.

"I think this will lead to increased competition among insurers and that will drive down the cost of premiums, instead of seeing double-digit increases every year," said Pontillo, whose association helps nearly 4,000 northwestern Pennsylvania employers buy health insurance for their workers.

Highmark and UPMC have been sparring since provider contract negotiations broke down in March, about a month after Hamot Medical Center joined the UPMC health system.

The contracts set the rate for which health insurers pay a hospital and its physicians for medical care. The current contracts for most UPMC hospitals expire June 30, 2012, though Hamot's doesn't expire until a year later.

UPMC signed provider contracts in the spring with four other national health-insurance carriers: Aetna, UnitedHealthcare, Cigna and HealthAmerica.

Highmark announced in June it would acquire the West Penn Allegheny Health System -- UPMC's main competitor in Pittsburgh.

On Wednesday, Highmark filed a lawsuit against UPMC and most of its hospitals, but not UPMC Hamot. It claimed UPMC breached its contract with Highmark, and has run deceptive advertisements.

What effect does this Pittsburgh-based battle have on people living in northwestern Pennsylvania?

Lower health-insurance premiums are a possibility, but so is less choice when it comes to picking a doctor or hospital.

A lot depends on whether UPMC and Highmark can put aside their squabbles and agree on a provider contract.

UPMC doesn't think they will.

UPMC spokesman Paul Wood has said there won't be a new contract, and a memo the health system sent to Hamot physicians stated "there cannot be any prospect of a contract renewal between UPMC and Highmark."

Highmark remains hopeful.

"We will continue to look for common ground and a reasonable contract with UPMC," Highmark spokesman Michael Weinstein said.

If they don't agree on a new contract, Pontillo is convinced we will see lower health-insurance rates in northwestern Pennsylvania. Other insurers will be able to better compete with Highmark, which currently has about two-thirds of the business.

"It will level the playing field and make things more competitive," Pontillo said.

That's because Highmark members would have to pay higher out-of-network costs to receive care at UPMC hospitals, including Hamot. They would also have to get prior approval from Highmark for each visit if the contracts expire.

But UPMC and Highmark disagree on how soon Highmark members would have to pay more for care at UPMC hospitals and physician offices.

UPMC thinks it could happen as soon as July 2012 at most of its hospitals and July 2013 at Hamot. Highmark doesn't think it takes effect until 12 months later.

UPMC officials claim those with Highmark insurance would have to obtain approval and pay out-of-network costs the day after a hospital's contract expires. Highmark officials insist the current contract includes provisions for a one-year run-out phase that keeps costs the same during that time.

"Highmark members would need no special permissions or approvals during that time," Weinstein said.

Hamot's contract doesn't expire until June 30, 2013, which means it has an additional year to see how the situation develops, Hamot Chief Executive John Malone said.

But Malone said he doesn't know if Highmark members would have to pay out-of-network costs if they are transferred from Hamot to a UPMC hospital whose contract with Highmark has already expired.

Weinstein declined to answer that question, saying "I'm not going to comment on something that is two years down the road."

Hamot is working to ensure that UPMC physicians who travel to Erie to see patients are in Hamot's network, Malone said.

"Unfortunately, the crystal ball is not crystal clear in how this whole situation will play out over the next two years," Malone said.

Pontillo predicted that Highmark members will be upset, at least initially, if Hamot and other UPMC hospitals aren't part of the Highmark network.

Then they will see the cost savings, and make decisions based on price and which hospitals are in each insurer's network.

"It will go over here like it has everywhere else," Pontillo said. "It will be difficult at first, but we will see real competition."

That competition could intensify if Highmark partners with Saint Vincent Health Center. The Pittsburgh Tribune-Review reported July 3 the health insurer "will make an aggressive move to work with" Saint Vincent.

Saint Vincent officials denied any partnership talks with Highmark.

"The only discussions we are having with Highmark are about extending our provider contract," Saint Vincent Chief Operating Officer Tom Fucci said.

Weinstein said that Highmark is talking with many hospitals and physician groups about potential partnerships. He declined to name any of them.

Hamot will continue to thrive, even if it leaves the Highmark network, Malone said.

"A lot depends on how quickly Aetna, UnitedHealthcare, HealthAmerica, Cigna and UPMC Health Plan can make a compelling case in the marketplace," Malone said. "It's going to place even more of an emphasis on the quality of care a hospital and its physicians can provide."

Though Highmark's contracts with most UPMC hospitals don't expire for almost another year, the aftershocks of this disagreement are already being felt in the marketplace.

Pontillo plans to hold informational meetings with the association's members in September to discuss the evolving health-insurance landscape.

"We're going to see a lot of change very quickly," Pontillo said.

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Highmark knocks $1.5M off Allegheny County's yearly health insurance bill

Thursday, May 19, 2011
By Len Barcousky, Pittsburgh Post-Gazette

Highmark Blue Cross Blue Shield has trimmed Allegheny County's annual medical insurance bill by $1.5 million, Executive Dan Onorato told county council members Wednesday.

The credit issued this month by the health insurer represents "money in the bank" for the county, he said. The discount reduces the county's approximately $70 million cost for health insurance it buys for its employees by about 2 percent.

Mr. Onorato told council the county also received a $200,000 grant from Highmark to cover some costs for wound care at the county's nursing homes, which are formally known as the Kane Regional Centers.

The grant and the health-insurance credit represent the first fruits of Mr. Onorato's efforts to persuade the region's nonprofits to contribute toward the costs of providing county services in lieu of property taxes.

While the contributions from Highmark did not come in the forms he was expecting, they represent real savings for the county, he said.

Mr. Onorato's ultimate goal is to get commitments for $4 million worth of payments from tax-exempt institutions, including hospitals, colleges and universities this year. The 2011 county operating budget that council passed in December includes that amount in expected revenue from nonprofits. As the months tick by with no news of contributions, council members sought assurance from the county executive that money from the nonprofits would be forthcoming.

Mr. Onorato announced the Highmark contributions during his quarterly report to council.

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PITTSBURGH TRIBUNE-REVIEW

Highmark asks to raise 'last-resort' rates

By Alex Nixon
PITTSBURGH TRIBUNE-REVIEW
Saturday, July 23, 2011

Almost 30,000 people in Western Pennsylvania who can't get health insurance anywhere else are facing a 10 percent hike in their monthly rates under a plan submitted by Highmark Inc. to state insurance regulators.

Highmark, the nonprofit "insurer of last resort" in Pennsylvania, this week asked the state's Department of Insurance to allow it to increase rates an average of 9.9 percent on five plans it sells to people who don't receive insurance coverage through their employer and can't get health insurance from other providers because of their medical conditions.

The Downtown-based insurer, which has more than 3 million members in the state, said it loses money on the plans and points out that no for-profit company would insure the people covered under the five plans for the prices that Highmark charges.

"If we used the actual cost, the price of the insurance would be much higher," spokesman Michael Weinstein said.

The five plans are ClassicBlue Traditional, Preferred Blue Preferred Provider Organization, PPO Blue High Deductible, Special Care and KeystoneBlue for Kids HMO. Highmark said 28,790 of its members in Western Pennsylvania are covered under those plans.

More than half -- about 16,600 -- are covered under Special Care, a program that was meant to fill the gap when the state-funded adultBasic program for the working poor was eliminated in February.

Highmark spent $98.9 million in the past two years subsidizing the rates charged to guaranteed-issue policy holders, Weinstein said. And it expects to contribute $46.3 million next year.

But critics of the rate increase said it's unjustified, given Highmark's more than $3 billion in cash reserves, and unreasonable for Special Care members.

"It's just sad that we're continuing to ask the working poor ... to continue to absorb these types of increases," said Beth Heeb, executive director of the Consumer Health Coalition, a North Side nonprofit organization that helps people get access to health care services.

Without Highmark's proposed rate increases, Special Care is 3 1/2 times more expensive than adultBasic was, Heeb said. "They're really being stretched quite thin."

The increases are necessary because health care costs continue to increase, and members in those plans use more medical services, Weinstein said. And Highmark's reserves are needed to compete with for-profit insurance companies that can tap investors for money to expand and add more products.

"All that surplus is used to help us compete in the marketplace with new products, new technology, and it keeps Highmark financially viable," Weinstein said.

Still, some critics were incredulous. Lance Haver, director of consumer affairs for the city of Philadelphia, said he hadn't yet read Highmark's proposal, but he would question the justification, given the $475 million it plans to spend to acquire West Penn Allegheny Health System and its proposed takeover of Blue Cross Blue Shield of Delaware.

"I would want to ask how is it possible for Highmark to need more money when they can afford to buy a hospital system and an insurance company in Delaware," Haver said.

But he's not likely to receive an answer.

"Even though I have a right to raise all those questions, there's no requirement for Highmark to answer," he said.

Haver criticized the process because, unlike proposals by utility companies to raise rates, there will be no public hearing in which witnesses are called to testify and no written decision by the state that could be challenged in court.

"Because the insurance department doesn't write an explanation for why they raised rates, there's nothing to challenge," he said.

Highmark's proposed increases will be published on Aug. 5, giving the public 30 days to submit comments. After that, the insurance department takes 45 days to review the increases, department spokeswoman Melissa Fox said.

Regulators examine data submitted by Highmark justifying the increases and can approve the request, deny it, approve an increase smaller than requested or ask for additional information, Fox said.

"The purpose of the department's review is to make sure that the rate request is not excessive, inadequate or unfairly discriminatory to policyholders," she said.

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Highmark to invest $475 million in West Penn deal

Capital infusion to stave off closure of West Penn hospital

Tuesday, June 28, 2011
By Bill Toland and Steve Twedt, Pittsburgh Post-Gazette

Doug Ray/Post-Gazette

Officials from Highmark and West Penn Allegheny Health System, from left, Dr. Kenneth Melani, president and CEO, Highmark; J. Robert Baum, Highmark; David L. McClenehan, board chairman, WPAHS; Dr. Christopher Olivia, WPAHS; and Dr. Anthony Farah, chief medical officer, WPAHS.

The boards that lead Highmark Inc. and West Penn Allegheny Health System have unanimously approved a "capital partnership" in which the area's dominant health insurer will invest up to $475 million into the region's second largest health system, including an up-front $50 million payment that will rescue Bloomfield's West Penn Hospital from what would have been imminent closure.

The deal puts Highmark into the hospital business in a big way, and floats a life preserver to a hospital system that has been losing money each quarter, including a $22 million operating loss in the quarter ending March 31.

Executives from both Highmark and West Penn Allegheny called the partnership "a historic transaction for Pittsburgh," one that will put WPAHS on sure financial footing, and will help maintain a viable option to the region's largest hospital system, the University of Pittsburgh Medical Center, which controls more than half of the hospital beds in the region and many of its physicians, too.

"They are well-capitalized, and we're not," said David L. McClenahan, WPAHS board chairman, speaking of Highmark. "That's putting it mildly." In the decade since the collapse of the Allegheny Health Education and Research Foundation, whose bankruptcy eventually bore the West Penn Allegheny Health System, WPAHS has been persistently starved for capital, he said.

WPAHS wanted to remain independent, that was no longer an option, financially, he said. Had the deal with Highmark not materialized, WPAHS was preparing a budget that would have included the autumn closure of West Penn Hospital.

PG VIDEO: HIGHMARK, WPAHS AGREEMENT

While the short-term goal of this partnership is to preserve a "fragile" Pittsburgh hospital system, the long term goal, said Highmark CEO and President Kenneth Melani, is the creation of a new model of health care, one that is outcomes based, with an integrated delivery and financing system.

"Health care services are becoming less affordable," he said. "It's important to

have choice. It's important to have a second system."

He also said that while the Highmark-WPAHS partnership is the primary product of this deal, the two institutions will also work to strengthen relationships with other regional hospitals and physicians' practices.

Also announced today, Christopher Olivia, president and CEO of West Penn Allegheny Health System, will step down from that position, effective immediately. He will take on a consulting position at Highmark, he said at the press conference this morning.

With Dr. Olivia's departure, Dianne Dismukes has been named interim president and CEO. Ms. Dismukes last month was named executive vice president for hospital operations at WPAHS, replacing Dawn Gideon.

Following the signing of a tentative "term sheet," Highmark "is immediately providing a $50 million grant to the WPAHS" to strengthen its West Penn and Forbes Regional hospitals "while assuring the continued delivery of quality medical services by the entire system."

Highmark is making "a total financial commitment of up to $475 million over four years, including $75 million to fund scholarships for students attending medical schools affiliated with WPAHS, and to support other health professional education programs," according to the morning's press release.

Earlier this month, Dr. Olivia announced that WPAHS would open a regional campus of Temple University's School of Medicine.

Throughout the morning, Highmark and West Penn officials took some verbal jabs at UPMC, noting more than once, for example, that WPAHS is the only local hospital system currently offering live transplants, as a result of having UPMC suspended those operations last month after a patient received a kidney from a donor with hepatitis C.

Officials from Highmark and WPAHS organizations (which are both non-profits) also tried to draw a distinction between WPAHS and UPMC, saying UPMC is not behaving like a not-for-profit community asset in the way that it tries to "maximize revenue" and put WPAHS out of business.

Highmark and UPMC relations have frayed in recent months as negotiations over a new reimbursement contract are at an impasse, with Highmark claiming that UPMC wants too much money, and UPMC saying that it cannot, and will not, sign a deal with an insurer that is now partner with a UPMC competitor.

The partnership's framework will be fleshed out over the coming two months, and the organizations hope it will be approved within six months. Some aspects of the deal may need state approval.

"Ultimately, we expect the Department will be one of the regulators that has a role in reviewing and approving the proposed arrangement between Highmark and West Penn," said Pennsylvania Insurance Department Commissioner Michael F. Consedine in a statement.

"However, no formal agreement has yet been signed and no filing has been submitted to the Department for its review."

Cathy Stoddart, staff nurse at Allegheny General Hospital and an SEIU member and union leader representing the system's 2,000-plus nurses, said the deal may prove beneficial for staff.

"I'm actually pretty excited," she said. "To have our system have money is something that hasn't happened in 11 years."

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UPMC LIFE CHANGING MEDICINE

Opening Statement of ***W. Thomas McGough, Jr.***
Senior Vice-President and Chief Legal Officer of UPMC
Before the Allegheny County Council
August 3, 2011

Good afternoon.

I'm Tom McGough, Senior Vice President and Chief Legal Officer of UPMC. On behalf of UPMC's Board of Directors and its 54,000 employees I want to thank President Burn, Chairman Palmiere, and the Allegheny County Council for this opportunity to discuss the significant changes that are coming in the delivery of health care in Western Pennsylvania. I have provided each of you with a set of materials that I will reference in my remarks.

Let me start with good news: Change is coming in the way Allegheny County residents receive and pay for health care, thanks in large part to some bold steps UPMC is taking. In fact, things are already changing in notable and very positive ways.

For more than a decade, premiums for health insurance in this region have risen annually by double-digit percentages, well in excess of national averages. I imagine the members of this Council have heard over the years from citizens or businesses who have complained that the fast rising cost of health insurance was making this region an expensive place to live or do business.

Meanwhile, doctors and hospitals have had to make do with less-than-adequate reimbursement. Indeed, although health insurance premiums have skyrocketed above national averages, studies have repeatedly shown that reimbursement rates to regional providers have fallen well below national averages. As a result of these sub-standard reimbursements, we've seen fine hospitals like St. Francis fail and seen the outmigration of private practice physicians.

No one policy, person, or organization has been solely responsible for these problems, but one organization has set the prices most people pay for health insurance and the reimbursement rates most providers receive for their services. That organization is, of course, Highmark, which for decades has sold more than 65% of the commercial health insurance in this region and has bought more than 65% of the commercial health services provided in this region.

In economic terms, it is both a monopoly and a monopsony. If you're an employer or an individual who wants to buy insurance, you have to talk to them. If you're a hospital or doctor who wants to sell health services, you have to talk to them.

From Highmark's standpoint, of course, this is a very good thing. It gets to tell its subscribers what price they'll pay—usually a whole lot—and tell the providers what reimbursement they'll receive—often not enough. By collecting insurance premiums above national averages and keeping reimbursement rates below national averages, Highmark has accumulated $4 billion in reserves.

Early this year, UPMC took the first step toward breaking the lock Highmark has had on the health care market by entering into contracts with four national insurers that had previously been unable to crack Highmark's dominance: Aetna, Cigna, HealthAmerica and United. By putting UPMC into

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their networks these large, national insurers have come into Allegheny County with their competitive guns blazing. They are also bringing new jobs to the region. For example, and reflected at tab A, Cigna is right now recruiting for 164 new positions, including nurses, behavioral clinicians, health educators, and personal advocates.

This competition is transforming the market for health insurance right now. As reflected at tab B, some analysts believe a full-blown price war has broken out. While that report might be a bit premature, I'd be surprised if any employer has complained to you recently about Highmark trying to cram a double-digit rate increase down its throat. Indeed, if you look at tab C, you'll see that Highmark is knocking $1.5 million off Allegheny County's own health insurance bill next year. Would that have happened if it wasn't feeling the competitive heat?

There has been one unfortunate exception to this trend, an exception that proves my point: As reflected at tab D, Highmark just last week announced a 10% increase in premiums on "last resort" policies, those issued to people who don't get insurance coverage through their employers and can't get it from other insurers because of pre-existing conditions—in other words the working poor for whom other insurers can't compete.

Which brings me to UPMC's latest step toward positive change. UPMC's contracts putting most of our hospitals in Highmark's network expire on June 30, 2012. As the parties were discussing a renewal of those contracts earlier this year, the news broke that Highmark was going to acquire West Penn Allegheny Health System and convert itself into what Highmark calls an "integrated delivery and finance system," or IDFS. With that revelation, UPMC decided that it will not renew its hospital contracts with Highmark and instead will let them expire.

To understand why Highmark's decision to become an IDFS is a showstopper for UPMC, you have to understand what an IDFS is. An integrated delivery and finance system is a full-service health system with an insurance arm that puts subscribers into its system. The insurance function basically becomes the "front door" to the system's doctors and hospitals. It's a good model, and in fact one that UPMC and its Health Plan have followed for more than ten years. Other examples of IDFS's are Geisinger Health System in central Pennsylvania and Kaiser Permanente in California.

But note that the "I" in IDFS stands for "integrated," meaning that one entity directs everything within its health system, including the insurance premium, the quality of care, and the utilization of that care. Indeed that's how an IDFS generates lower health care costs, by aligning and controlling every aspect of its business, from the first dollar collected as a health insurance premium to the last dollar spent on medical staff, equipment, or real estate.

If Highmark wants to be an IDFS, and as reflected at tab E it says it does, UPMC is happy to welcome it to that model. But IDFS's don't offer insurance for other IDFS's because the whole point of being an integrated delivery and finance system is to use your insurance arm as the front door for your health system and not competing health systems. To put it more directly, once Highmark has spent hundreds of millions of subscriber dollars to buy and rebuild West Penn Allegheny, and has taken on $1 billion more in West Penn Allegheny's pension obligations and bonds, it's going to use every lever it has as a monopoly to make sure its hospital beds are filled before anybody else's. In fact, Highmark would be foolish not to do this.

Highmark has said that it's transforming itself into an IDFS to preserve "choice" in health care. But

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Highmark is in favor of choice only as long as everybody makes their choices through Highmark and pays its tariff on the way to that choice.

Take, for example, Highmark's latest argument that if its contracts with UPMC expire patients will lose access to such world-renowned facilities as Magee-Womens Hospital of UPMC or the Hillman Cancer Center. Nothing could be further from the truth. All UPMC facilities have always been open to subscribers of any insurance company, whether that insurer had a contract with us or not. After its contracts with us expire, Highmark won't get the preferred rates that it enjoyed these past 10 years, but it will be in exactly the same position that Aetna, Cigna, HealthAmerica, and United were until this year. The only question will then be how much of that higher rate Highmark will pass along to its customers who want to use UPMC facilities, with the answer being determined by how competitive Highmark wants to be.

In sum, UPMC and its Board have decided that it cannot and will not renew the hospital contracts with Highmark. To do so would put our entire system and its 54,000 employees at grave risk. That wouldn't be good for UPMC, for the patients who depend on our doctors and hospitals, or for Allegheny County.

I want to be absolutely clear: UPMC will compete with Highmark IDFS to IDFS, but it can't and won't renew the hospital contracts. This is not a negotiating ploy. Those contracts will expire on June 30, 2012. To the extent that employers or individuals want to ensure unfettered, in-network access to UPMC doctors or hospitals after that date, they should review their existing plans and consider whether their access would be better assured by signing on with Aetna, Cigna, HealthAmerica, United, or, yes, the UPMC Health Plan.

We recognize that there are going to be some disruptions and some problems as the contracts expire and we unwind our relationship with Highmark. The real disruptive event, however, is Highmark's decision to convert itself into an IDFS. We also are confident that, if Highmark will sit down with us and discuss in good faith how to unwind our relationship in a way that works best for patients and employers in this region, we can minimize any disruptions or problems.

Unfortunately, Highmark has flatly refused to do that, saying again and again that they are going to get a contract renewal with UPMC. Whether they are saying that to lull employers and subscribers into ignoring the important choices that loom before them, or whether they really believe they can browbeat UPMC into doing a disastrous deal we don't know. What we do know, however, is that there will be no renewal and that the public would be far better served if Highmark acknowledged that and started working on the unwinding process.

So, if this Council is going to do anything, it should encourage Highmark to immediately begin discussions of how to unwind its expiring relationship with UPMC in a way that is least disruptive for patients, for employers and for the citizens of Allegheny County.

Thank you. I would be happy to answer any questions.