

**The Proposed Merger between Highmark and Independence Blue
Cross and its Impact on the Health Insurance Marketplace**

**Senate of Pennsylvania
Banking and Insurance Committee**

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Joint Testimony by

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My name is Ken Melani, and I am president and chief executive officer of Highmark. I am here with Joe Frick, the president and chief executive officer of Independence Blue Cross. We want to thank Chairman White and the members of the Senate Banking and Insurance Committee for inviting us to speak to you today about the consolidation of Highmark and Independence Blue Cross and why the combination of these two companies is good for Pennsylvania.

I'll speak about a few matters first and then I'll turn the microphone over to Joe so you can hear from him as well.

Our mission at Highmark and the mission at Independence Blue Cross are almost identical – providing access to quality, affordable health care, enabling people to live longer, healthier lives and strengthening the wellbeing of our communities. We support our mission like few other companies in the country – we are genuinely passionate and committed to our subscribers, our physician and hospital partners, and the communities we serve.

As nonprofit companies, we meet the health care coverage needs of people that many for-profit insurers will not insure. We are often referred to as “insurers of last resort,” because we offer health insurance programs to everyone in Pennsylvania, regardless of medical history, health status, age or gender. This commitment has been at the core of our long standing corporate missions and Joe will discuss in a few minutes how the new company will build upon that commitment.

We also support our local communities, where our subscribers and employees and their families live and work. In 2006 alone, Highmark and IBC contributed over \$200 million toward our social missions by subsidizing the premiums of individual health insurance products and by supporting community health and education programs. These included programs to fight hospital-acquired infections, fund clinics for the uninsured, increase the supply of nurses through scholarships, eliminate disparities in health care and prevent childhood obesity.

To put the amount of our community contribution into some perspective, one of our publicly traded competitors boasts of spending less than five hundred thousand dollars in charitable grants for Pennsylvania causes in 2006. In 2006, this same competitor contributed *nationally* only one-tenth of what Independence Blue Cross and Highmark spent on community health initiatives in Pennsylvania.

Speaking of our competitors, I'd like to correct some inaccurate information that is often repeated about competition in the health insurance marketplace in Pennsylvania. Despite what many of you may have read or heard, the proposed combination of Independence Blue Cross and Highmark will not reduce competition or choice in the health insurance marketplace. There are two compelling reasons why this is true.

First, both Highmark and IBC compete against major national, publicly traded, highly capitalized companies, including Aetna, Cigna, Coventry, and United. As public, for profit companies, they have ready access to capital and can grow through buying companies and investing in significant capabilities.

For example, Sierra Health Plan was recently purchased for \$2.6 billion by United, one of our top competitors with more than 33 million subscribers and \$71.5 billion in annual revenue – almost *quadruple* our combined revenue. Here’s another example: in 2005, Aetna spent \$400 million to acquire ActiveHealth, a clinical data analytics company.

Obviously, these companies have the scale and membership to purchase services (including many non-traditional health care services now being sold on a national level) less expensively, to invest in technology more cost effectively and to significantly spread their administrative costs.

We believe the consolidation is necessary to provide the scale needed to generate significant savings, which will help hold down cost increases for our customers and allow us to effectively compete with these types of companies. Joe will discuss these savings shortly.

One of the reasons our consolidation will not reduce competition is because we serve all of the counties and municipalities in our service areas – we don't avoid counties, we don't target or intend to service only certain markets. We are required to make health insurance coverage available to as many Pennsylvanians as possible. We invite competition. What we would like to see is healthy competition for all risk, not just competition for healthy people.

The second reason the combination of IBC and Highmark will not reduce competition or choice in the health insurance marketplace is that our two companies do not compete with each other. We have no significant geographic or customer overlap. The new company will continue to operate in the same markets and face the same competition as we do today from national, for profit and other companies. So by combining, we will not be reducing competition because there is no competition between us today.

This is not only our opinion. On the issue of whether our proposed consolidation negatively affects competition in Pennsylvania, the United States Department of Justice reviewed the consolidation and concluded that it raises no antitrust or other anti-competitive issues under federal law.

Lastly, on the subject of the competitive landscape, it is worth noting that today Pennsylvania is one of only five states in the United States with more than one Blue plan. We are the only state with four Blues. As Acting Commissioner Ario mentioned in his testimony before this Committee last week, consolidation is a trend facing many insurers, including Blue Plans. In 1980, there were 115 separate Blue Cross/Blue Shield Plans across the United States. Today there are 39.

With market pressures to increase economies of scale and decrease administrative costs -- and with the federal government developing multi-state regions for Medicare and the Commonwealth exploring statewide risk pools -- it is important for us now more than ever to operate more efficiently and be able to offer seamless statewide products, networks and services.

We intend to do so as non profit companies. I assure you that both of our boards and executive teams are committed to our Pennsylvania-based, not-for-profit status as one of the key factors that differentiates us in our local communities and distinguishes us from our publicly traded competitors.

After almost two years of thorough analysis, we concluded that the best way for each of us to fulfill and continue our mission is to combine our two Pennsylvania-based companies. We realized that by joining together we could meet the evolving needs of the market and the communities we serve *and in addition*, provide \$1 billion of economic benefit to the Commonwealth over six years to further our support of community health initiatives and help to reduce our administrative costs.

Joe Frick will address the commitments the companies have made and the reasons why we believe the consolidation of Highmark and Independence Blue Cross are good for Pennsylvania.

Thank you, Chairman White and members of the Senate Banking and Insurance Committee. While Ken spoke about our companies and the health insurance market in Pennsylvania, I'd like to focus my comments on the benefits of the consolidation for the Commonwealth, our customers, employers, employees, the uninsured and our two companies.

First and foremost, by combining these two companies – and only by combining these companies-- we will be able to generate more than \$1 billion in *additional* economic benefits over six years for health care programs in Pennsylvania. I want to be clear on this point: this is new money and goes beyond any commitments we have today.

These additional monies will come largely from savings from business efficiencies that the two companies could not produce individually.

The combined company will generate savings by avoiding duplicative investments in costly technology and administrative requirements.

These savings will fund our moving more quickly than we could independently to take advantage of cutting-edge technology to improve the quality of care – such as providing electronic Personal Health Records or e-Prescribing tools.

We will also achieve significant savings by consolidating computer systems used for claims processing, enrollment, medical management, and provider transactions. One example of a new capability this will allow us to pursue is real-time claims adjudication – a major benefit for both patient and physician.

Although the new company's main focus will be on meeting the health care coverage needs of Pennsylvania, it will continue to identify new ways to better meet the needs of employer customers with locations and employees across the United States. The combined company will also be able to increase revenue by strengthening sales of ancillary health products (vision, dental, workers' compensation and pharmacy) and leveraging our combined expertise (TPA services, national accounts and Medicare).

By expanding both the health coverage business and the ancillary health business, the new company will be able to bring additional revenue to Pennsylvania, create and retain jobs for Pennsylvania workers and fulfill its corporate mission.

We have also stated that the combined company will be able to save \$285 million on prescription drug costs by capturing higher rebates and pharmacy discounts and lowering the cost of administration – savings possible only with a larger membership base. Without the combination, these costs would be reflected in higher customer premiums.

Since we do not have shareholders or investors like our publicly traded competitors, the combined company will reinvest the \$1 billion of savings I just described in programs to meet the health care needs of our customers and communities. A high priority of the new company is to direct more than \$650 million to expand access to health insurance for Pennsylvania's uninsured and underinsured, over and above our current commitments. The increasing number of uninsured in the Commonwealth drives up health care costs, for which each of us ultimately pays. The new company intends to work with stakeholders and public officials to identify the most effective way of using these monies.

The combined company has pledged to not increase the administrative fees portion of customers' health care premium for two years. This would be a direct savings to our customers of almost \$300 million that would not be possible without an IBC-Highmark combination.

When we began talking with Highmark almost two years ago about the possibility of working together, we had one goal in mind – improving access to quality, affordable health care. Today we are enormously energized by the future possibilities we see ahead when we combine the talents of our two organizations into one great team that will continue to make access to affordable quality health care in Pennsylvania its top priority. I’d like to give Ken the opportunity to spend just a few minutes talking about the benefits of the transaction to the provider community.

With regard to our providers, I’m concerned about changes taking place in the market that might affect the physician-patient relationship and the quality of patient care. And for a number of reasons, I believe the combination of Independence Blue Cross and Highmark will have a positive effect on physicians.

First, the new company will be better positioned to identify best practices and, using the scale I mentioned earlier, leverage technology to simplify administrative transactions with physicians and hospitals. One example is the development of an electronic personal health record to help address quality, patient safety and cost issues. These types of activities will help to simplify office administration which, in turn, will help to reduce errors and free physicians and office staff to focus their efforts on patient health and service.

Second, the new company's commitment to expand access to health insurance for Pennsylvania's uninsured will also benefit hospitals, physicians and other health care professionals because there will be less uncompensated care.

Third, physicians have been valued partners in both Highmark's and IBC's long-standing missions. We recognize this and we understand that the delivery of health services is often a local issue, so we plan to concentrate on maintaining our well-established relationships with physicians to address unique needs of our subscribers – their patients – in each region.

As we've stated, physicians and hospitals will be important to the new company's success, as they have been for decades to the success and long-standing missions of Highmark and Independence Blue Cross.

One of the principal ways that we have met our customers' expectations in the marketplace is by offering health benefit programs that include access to the broadest networks of hospitals, physicians and other providers. To help achieve broad provider networks, we constantly strive to fairly reimburse providers for the medical care provided to our customers.

Lastly, the new company intends to continue to maintain fair and reasonable provider payment levels. The \$1 billion in economic benefits that Joe Frick and I are discussing will not result from changes in physician and hospital reimbursement levels.

All of us recognize that the rising cost of health care is straining the country's system of employer-sponsored health insurance. For this reason, the new company will strive to balance fair and reasonable provider payment levels with the need to maintain comprehensive and affordable health benefit programs for consumers.

We look forward to working cooperatively with the regulatory agencies and public officials who want to better understand the impact of the combination on the people of Pennsylvania. We'd be happy to answer any questions you may have.