Testimony of

Dr. Mark Piasio

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Good morning Senator Specter and members of the Committee. My name is Mark A. Piasio, MD, MBA. I am an orthopedic surgeon practicing in Dubois, Pennsylvania and President of the Pennsylvania Medical Society.

First, let me thank you for allowing me to speak with you this morning.

I would like to make it clear that our testimony is not intended as a corporate or personal attack on any of the market participants and the people who work for them. Each of them is doing what they think is best. However, each is "doing what comes naturally" in failed markets. This, we believe, is the fundamental cause of a host of problems and calls for extensive public policy analysis and response.

The lack of competition among health insurers in health delivery markets throughout the country and in Pennsylvania, as well as the consolidation of health insurers across the nation, raises serious concerns for the provision of quality patient care. As patient advocates, physicians are often prevented by market dominant insurers from providing necessary care through "take-it-or-leave-it" contracts and other insurer imposed cost cutting mechanisms.

Market consolidation does not benefit consumers from a financial perspective either. While many large Pennsylvania insurers are posting huge profits and surplus reserves, premiums continue to skyrocket (Pennsylvania has some of the highest premiums in the nation), and patient cost shares continue to increase without any increased benefit. Additionally, physician payment, particularly in the Philadelphia market, continues to lag behind other geographic markets. For example, evaluation and management services in some cases are paying at 85% of the comparable Medicare rate. In the meantime, physician operating costs continue to escalate, driven primarily by professional liability and employee (?) costs.

From 2000 to 2004, Pennsylvania health insurers increased premiums 40 percent per enrollee, from $2,161 to $3,022, nearly double the U.S. average, while insurer surplus reserves rose from $5 billion to $6.8 billion. Total annual profits of Pennsylvania health insurers increased from $468 million in 2000 to $621 million in 2004. This translates to an annual per enrollee profit for Pennsylvania health insurers in 2004 of $93.45. The equivalent average annual per enrollee profit for health insurers in the rest of the country, as reported to the National Association of Insurance Comissioners was $79.79 in 2004.

Overhead and profit percentages of Pennsylvania health insurers increased despite the fact that much of the revenue increase was pure price level change. Annual health insurer administrative costs per member more than doubled from $132 in 2000 to $270 in 2004. One of the classic hallmarks of a firm with monopoly power is the erosion of administrative efficiency. It is quite possible that the loss of administrative cost efficiency seen among Pennsylvania's health insurers

relates directly to the loss of incentive to maintain administrative cost efficiency in the presence of market power.

Physician practices located in the Philadelphia and Pittsburgh markets as well as a number of other Pennsylvania health delivery markets depend heavily on patients covered by market dominant insurers, which can and have provided unreasonable contract terms and anti-competitive reimbursement rates. These physicians have little bargaining power with those insurers that exert monopsony power.

The American Medical Association each year conducts a study focused on health insurance competition in the U.S. One aspect of this study is a determination of the Herfindahl-Hirschman Index (HHI) for each of the national geographic markets. Simply put, the HHI is a measure of competition of an overall market. The Federal Trade Commission (FTC) and the Department of Justice (DOJ) consider an HHI of over 1800 as a "highly concentrated" market, therefore little competition. The HHI for the Philadelphia MSA is 5129, four times the HHI indicator of little competition.

It was recently announced in the news media that the two largest Pennsylvania-based health insurers--Highmark and Independence Blue Cross--are merging. It is unclear what ultimate impact this merger will have on the geographic and product markets, but what is clear is that the statewide market share for commercial health insurance as well as the statewide HHI will increase to levels that would not be permitted under existing Department of Justice and Federal Trade Commission merger guidelines.

Entry into health insurance markets is not easy. If it were easy, much more competition would exist in large markets such as Philadelphia. Instead for example, even large national payers like United Healthcare gained entrance into the Philadelphia market by acquiring Fidelity Insurance, Oxford and Health Net as opposed to developing their own physician network and products.

Given the problems identified above, we believe a first response would be to restore full and open competition in these markets. However, this will produce substantial economic and political issues. The next optional response would be to develop countervailing power intervention. Third, would be regulatory oversight of market participants that hold and exercise market power. We recommend that the FTC and the DOJ develop a comprehensive research agenda that will provide greater insight into the issue of insurer market power.

Let me add that today, investigating this situation may be more important than ever before. The impact of the proposed merger between IBC and Highmark may impact more Pennsylvanians than any other healthcare transaction in the state's history, perhaps more than any other business transaction that has occurred in the Commonwealth. Certainly, such a transaction would have a profound impact on physicians and the Medical Society. Consumers, other providers, employers and unions, the Medicare and Medicaid programs, regulators, the uninsured and many other interest groups would be equally affected.

In conclusion, thank you for the opportunity to provide testimony today. I an hopeful that you will be able to have the appropriate federal regulatory agencies review the health delivery

dynamics in the country, the Commonwealth as well as the impending merger of Highmark and Independence Blue Cross.

I'd be glad to answer any questions that members of the subcommittee may have.