

Testimony of  
**James R. Buckley**

April 9, 2007

TESTIMONY OF JAMES R. BUCKLEY, PRESIDENT OF THE DELAWARE  
VALLEY HEALTH CARE COALITION, INC.

on April 9, 2007

United States Senate on the Judiciary

"The Highmark/Independence Blue Cross Merger: Examining Competition and Choice in  
Pennsylvania's Health Insurance Markets"

Senator Specter, Members of the Committee:

My name is James R. Buckley and I am President of the Delaware Valley Health Care Coalition, Inc. The Delaware Valley Health Care Coalition, Inc. ("DVHCC") is a group of Union Health and Welfare Funds who have joined together to improve each Fund's individual purchasing power. At the present time, we represent ninety-one (91) Union Funds located in the Commonwealth of Pennsylvania representing one-hundred ninety thousand (190,000) Members; and, when one includes Member dependents, the health insurance provided easily covers in excess of four hundred thousand (400,000) lives.

An extremely conservative estimate of the DVHCC overall annual hospital/doctor spend for calendar year 2006 in our Commonwealth, is approximately one billion, five hundred million dollars (\$1,500,000,000). The DVHCC Member Funds are located across our Commonwealth from Pittsburgh to Philadelphia, as well as seven other states and the District of Columbia. Part of our mission is to monitor legislative initiatives and the healthcare marketplace for matters that may impact our membership as well as to research, evaluate and creatively develop programs that improve the quality and efficiency of health care and various health care delivery systems.

At this point, the Delaware Valley Health Care Coalition, Inc. has no position regarding the planned merger between Highmark Blue Cross ("Highmark") and Independence Blue Cross, Inc. ("IBC"). This is simply due to the fact that there is very little information concerning the potential effects of this merger available to healthcare consumers and providers. We have learned the following from various press releases and other sources that may or may not be accurate:

1

- o The merger will be completed over a three to five year period.
- o There will be a contribution to the Rendell Administration of SIX-HUNDRED-FIFTY MILLION DOLLARS to cover the uninsured, bringing the total contribution amount to 1.1 BILLION DOLLARS.
- o There will be a two-year financial cap on Administration fees by Highmark and IBC.
- o There will be an additional TWO-HUNDRED-EIGHTY-FIVE MILLION DOLLAR infusion

of cash into the Blue Cross Prescription drug product in fee and drug cost reductions.

- o The new corporation will be non-profit.
- o The new corporation headquarters will be in Camp Hill, Pennsylvania.
- o There will be no lay-offs, all employee reductions will be achieved through attrition.
- o There will be no employee buy-outs or golden parachutes.

Although at this time, the DVHCC has no official position, I am here on behalf of our Directors to express our profound concern and hope that certain questions regarding this merger will be answered through this Committee's review process. Our concerns and questions focus on whether the resulting entity will foster greater competition in the Commonwealth to the benefit of healthcare consumers, payers and providers, or stifle competition to the detriment of those groups.

Both organizations have a tremendous amount of money in reserve that, in part, owing to their non-profit status are to be used to afford health coverage to the uninsured in our Commonwealth. In 2005, it was reported that the reserves of Highmark Blue Cross and Independence Blue Cross were \$2.8 billion and \$1.43 billion, respectively.

By combining the Blues organizations and the hopeful efficiencies created, our Directors are concerned with how excess reserves will be utilized. Will excess reserves be used to create a better and more affordable healthcare system for citizens of the Commonwealth, or will they be used to finance "predatory pricing" practices of the newly merged company? Will the excess reserves and economies of scale created by the unified insurer be used to "smooth rates" from year to year. Will there be guidelines that will control what reserves may be used for and if so, who will be charged with the oversight of these reserves. Will the anticipated reduction of 9,000 jobs through attrition, eventually resulting in savings of approximately \$450 million dollars per year upon completion of the workforce reductions, pay for run-out for employees' healthcare whose employer becomes insolvent or disease management for all insured? Further, will the reductions in workforce affect the services provided, and consequently the quality of care provided in the Commonwealth.

Of great concern to our Member Directors, is whether or not the new entity with its integrated systems will provide for a greater flow of information concerning quality of care provided by hospitals and physicians in the Commonwealth and payment information. It is our sincere hope that there be a mandate for transparency with regard to information on hospitals and physicians; and, further, more importantly, that this information be shared with the Pennsylvania Healthcare Cost Containment Council, an organization that has compiled an invaluable knowledge base on healthcare quality in the Commonwealth, and who, I might add, without renewed enabling legislation will cease to exist in 2008.

It is our sincere hope that these questions will be answered and issues be addressed when this merger is scrutinized by this Committee and the Department of Justice as well as the Insurance Department of the Commonwealth of Pennsylvania.

Thank you for giving me the opportunity to express the concerns of the Delaware Valley Health Care Coalition, Inc.'s Directors regarding the proposed merger of Highmark Blue Cross and Independence Blue Cross.