Testimony of

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

A U. S. Senate Judiciary Committee Hearing
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Testimony by Joseph A. Frick
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My name is Joe Frick, and I am president and chief executive officer for Independence Blue Cross. I want to thank Senator Specter, Senator Casey and Governor Rendell for the opportunity to speak to you today about why the combination of Highmark and Independence Blue Cross into a new company is good for Pennsylvania and how it will create value for our customers, for health care providers, the communities we serve, and, most of all, for the people of our great Commonwealth.

I am very pleased to be here today and to appear on a panel with recognized leaders in our community and hear their perspectives on this important matter.

The unanimous vote 10 days ago by the boards of Highmark and Independence Blue Cross to approve an agreement to combine our two companies begins an extensive review process. We look forward to working cooperatively with state and federal regulatory agencies and with public officials who want to better understand the impact of the combination on the people of Pennsylvania. Today we will continue the open dialogue we have begun with key stakeholders in health care about how this combination will enable us to better serve their needs. We welcome your participation. Every major national and local survey in the last year has shown that the No. 1 issue on people's minds is the availability of affordable health care. It is no wonder. Every year employees shoulder more of the cost of health insurance, fewer employers offer health coverage, and there are more uninsured in Pennsylvania.

This troubles us deeply. Our mission at Independence Blue Cross and at Highmark - and we are passionate about it - is to provide access to quality, affordable health care, enabling people to live longer, healthier lives and strengthening the wellbeing of our communities. After almost two years of thorough data-driven analysis, we concluded that the best way for each of us to fulfill that mission was to join our two progressive Pennsylvania companies. We strongly believe this combination will not reduce competition or choice in the health insurance marketplace in the Commonwealth.

This morning, we want to demonstrate why. First and foremost, the combined companies will generate more than $1 billion in additional resources to provide access to affordable, quality health care coverage for Pennsylvanians. Let me be completely clear: this is new money and goes beyond any commitments we have today. By combining together, we will generate savings and revenue growth over six years that total more than $1 billion.

The savings will come from business efficiencies that the two companies could not produce individually. The savings will enable us to invest in new market-leading capabilities that are increasingly important to consumers and providers.

The combined company will generate savings by avoiding duplicating future 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.

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

By using the best practices of Highmark and IBC to perform more efficiently, the combined company will have the resources to expand wellness initiatives that keep people health and disease management programs that help the chronically ill lead healthier lives.

We listened to our customers' concern about ever-increasing pharmacy costs. To save our customers $285 million, the combined company will reduce prescription drug costs by launching initiatives to capture higher rebates and pharmacy discounts and lower the cost of administration - economies possible only with a larger membership base. These savings will go directly to our customers.

In addition to generating savings, the combined companies will 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). .

Together these savings and new revenue will generate $1 billion in additional resources. Since we do not have shareholders or investors like our publicly traded competitors, the combined company will be able to reinvest this $1 billion in the health care needs of our customers and community. Our first priority is to direct more than $650 million to expand access to health insurance for Pennsylvania's uninsured and underinsured - $650 million over and above our current commitments to help the uninsured. The increasing number of uninsured in the Commonwealth drives up health care costs, for which each of us ultimately pays. We will spend roughly $350 million to extend for three years the commitment in the Community Health Reinvestment agreement we have with the Commonwealth. Approximately $300 million will fund other programs or newly developed products to expand health care coverage in Pennsylvania.

In addition, the new company has pledged to hold administrative fees flat for two years, resulting in direct savings to customers of almost $300 million. Most of a customer's premium dollar - more than 85 cents - pays for the medical care the member receives. Less than 10 cents of each premium dollar goes to administrative fees. The combined company will not increase the administrative fees portion of customers' health care premium for two years - direct savings to our customers' premiums of almost $300 million that would not be possible without an IBC-Highmark combination.

There has been much speculation about what our ultimate plans are. I assure you that both of our boards and executive teams are committed to our 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. In 2006, Highmark and IBC contributed over $200 million to support community health and education programs such as fighting hospital-acquired infections, funding clinics for the uninsured, increasing the supply of nurses through scholarships, and preventing childhood obesity.

I said earlier that I am convinced that this proposed combination will not reduce competition or choice in the health insurance marketplace. There are two compelling reasons. First, Highrnark and Independence Blue Cross do not compete and never have. We are both licensees of the Blue Cross Blue Shield Association - a brand that is second to none in health care and proudly insures one out of three Americans. IBC and Highmark have worked closely together for more than 50 years on projects and products. However, Highmark and Independence have virtually no geographic or customer overlap. So by combining we are not reducing competition because there is no competition between us. It is worth noting that today Pennsylvania is one of only five states in America with more than one Blue plan. We are the only state with four Blues. With the federal government developing expansive regions for Medicare PPOs and state governments exploring establishing statewide risk pools, it is important for us competitively to offer seamless statewide products, networks, and services.

Second, both Highmark and IBC have major competition. Who are our competitors? Major national, publicly traded, highly capitalized companies, including Aetna, Cigna, Coventry, and United. These are not small Mom and Pop insurance companies whom we would overshadow. Most are larger than IBC or Highmark. All have access to capital to buy companies and 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 members and $71.5 billion in annual revenue - almost quadruple our combined revenue. In 2005, Aetna spent $200 million to acquire ActiveHealth, a clinical data analytics company

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 possibilities we see ahead when we combine the talents of our two organizations into one great team that will continue to make affordable access to quality health care in Pennsylvania its top priority. I look forward to answering any questions you may have.