

Testimony of
Kenneth R. Melani, M.D.

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Testimony at Hearing on Highmark/Independence Blue Cross Merger United States Senate
Committee on the Judiciary

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My name is Dr. Ken Melani, and I am president and chief executive officer for Highmark. I want to thank Senator Specter, Senator Casey and Governor Rendell for the opportunity to speak to you today about why the proposed combination of Highmark and Independence Blue Cross into a new company is good for Pennsylvania and how it will create value for the communities in which we operate, for our customers, for health care providers and, most of all, for the people of Pennsylvania.

We recognize that this hearing is the start of what may be an extended review process involving state and federal regulatory agencies, with input from the Pennsylvania General Assembly and the United States Congress. We welcome the opportunity to discuss the proposed combination of Highmark and Independence Blue Cross and are committed to working cooperatively to help ensure that this process is open. Before the announcement of the agreement to combine the two companies, we had been regularly briefing key stakeholders in Pennsylvania on the status of the discussions between the two companies. We will continue this open dialogue as we move forward.

We expect some individuals and organizations may have some apprehension and some pointed questions about the potential impact of this agreement. Because there are still many details that have to be decided about how to integrate the two companies, we may not be able to answer all of your questions today. I assure you, however, that we will provide you with updates about the new company as important business issues are decided.

We ask that members of this Committee, other people here today and all Pennsylvanians keep an open mind and look at the big picture in weighing the merits of this agreement. The boards of directors of the two companies took this approach during their thorough review of this transaction and concluded that the combination of the two companies is good for Pennsylvania. In fact, both the Highmark and Independence Blue Cross boards unanimously approved the agreement to combine the two companies.

Why will this new company be good for Pennsylvania? Joe Frick addressed many of the reasons in his remarks. In addition to helping improve access to affordable, high-quality health care, the

new company will serve as an engine for the Pennsylvania economy for years to come. Currently, the two companies have a total annual business impact of \$4.2 billion on the state's economy, representing monies generated in Pennsylvania because of Highmark and Independence Blue Cross.

We employ more than 18,000 Pennsylvanians and help produce jobs for another 54,000 people in businesses that provide goods and services to the two companies.

Although we are both non-profit corporations, we provide substantial tax revenue for the state, with our subsidiaries paying \$247.8 million in state taxes in 2006.

In the future, the new company has the potential to become an even larger contributor to the state's economy. I believe we will be able to grow our business to meet the shifting needs of our current customers and new customers not only in the area of health insurance, but also in our dental and vision businesses and other related services through partnerships with other Blue Cross and Blue Shield companies in the country. The additional revenues generated through business growth means we can bring back more money to Pennsylvania, create more jobs in the state and stimulate additional business opportunities for Pennsylvania-based companies.

Equally important, while we anticipate gaining operating efficiencies as a result of the combination, we expect that any potential impact on employment will be managed through attrition and business growth. In other words, we plan to use our collective workforces to meet the changing needs of our customers and provide employees with opportunities for professional growth.

As Joe Frick has discussed, the new company will generate \$1 billion in economic benefits that will be used to achieve savings for our customers and to expand access to health insurance for Pennsylvania's uninsured population. I would like to talk about why this combination is a plus for health care providers, including physicians.

As a physician, I, too, am concerned that the changes taking place in the financing and delivery of health care may be affecting the physician-patient relationship and the quality of patient care. For a number of reasons, however, I believe the new company will have a positive effect on physicians, primarily because they will have more time to spend on patient care versus the administrative tasks of a medical practice.

The new company will work to identify the best practices to help simplify administrative transactions with physicians and hospitals, using the most effective means of electronic connectivity. At the same time, we will continue to approach health care on a region-by-region basis. Because the delivery of health services is a local issue, we will concentrate on maintaining our well-established relationships with physicians to address unique medical needs of our customers - their patients - in each region.

The new company's commitment of \$650 million to expand access to health insurance for Pennsylvania's uninsured will also benefit hospitals, physicians and other health care professionals by providing more revenue for the medical services they provide.

Physicians have been a valued partner in both Highmark's and IBC's long-standing missions. We want to continue that spirit of collaboration, especially with the development of an electronic personal health record to help address quality, patient safety and cost issues.

I also would like a moment to address a question in your recent letter relating to concerns raised by physicians, hospitals and other health care providers about reimbursements to health care providers.

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 have strived to fairly reimburse providers for the medical care provided to our customers.

I want to be very clear on one point: the new company will continue to maintain fair and reasonable provider payment levels. The \$1 billion in economic benefits that Joe Frick and I have been discussing today will not result from changes in physician and hospital reimbursement levels.

All of us must 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.

In closing, the two companies are coming together to be better able to serve the people of Pennsylvania, with a focus on providing access to affordable, high-quality health care coverage. The new company will achieve operating efficiencies - freeing resources to invest in programs and services that will benefit our group customers, individual customers, physicians, hospitals and the communities in which we operate.

For these reasons, Highmark and Independence Blue Cross have agreed to combine to build a better company for Pennsylvania. I welcome the opportunity to respond to any questions you may have.