

Testimony of

Henry Miller, Ph. D.

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ON BEHALF OF UPMC HEALTH PLAN

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Presented to: Senate Judiciary Subcommittee on Antitrust,  
Competition Policy and Consumer Rights

My name is Henry Miller. I am a Managing Director in the health care practice of Navigant Consulting, Inc. I have worked on health insurance and health finance issues for more than thirty years, including work for clients based in Pennsylvania, in other states and for the Federal government. My work in Pennsylvania has included projects conducted for Highmark, Inc., Blue Cross of Northeastern Pennsylvania, Coventry Health Care, the Commonwealth's Medicaid program and other agencies within the Department of Public Welfare. My work for the Federal Government has included projects for the Centers for Medicare and Medicaid Services as well as most other Federal agencies that are concerned about healthcare. My work in other states includes my analysis of the application of Premiera Blue Cross to convert to for-profit status which was undertaken for the Alaska Department of Insurance. I have also conducted projects for Blue Cross and Blue Shield plans in twenty seven states as well as several other health insurers. My curriculum vita has been submitted separately.

I was asked by UPMC Health Plan to analyze the impact of the proposed consolidation of Highmark, Inc. (Highmark) and Independence Blue Cross (IBC) and to testify today on my findings. UPMC is an integrated delivery and financing system and the second largest non-governmental employer in Pennsylvania. UPMC Health Plan provides commercial group coverage to over 6,000 employers with approximately 330,000 members, Medicare and Medicaid coverage to another 185,000 beneficiaries, and services an additional 700,000 members through a variety of other benefit programs such as behavioral health, CHIP, short term disability, employee assistance and wellness programs.

I have prepared a detailed report for UPMC Health Plan of the impact of the proposed Highmark/IBC consolidation. I can deliver a copy of my detailed report to this Committee upon request. Today, I will concentrate on four issues:

? Antitrust concerns and the markets that will be affected by the proposed consolidation. Here, the combined entity will control more than two thirds of the state's commercially insured residents.

? Previous health insurer consolidations have not led to administrative savings.

? Pennsylvania's hospitals will be adversely impacted by the increased financial pressure that will result from the combined entity's leverage during hospital contract negotiations.

? The proposed consolidation will adversely change the market for health insurance in Pennsylvania to the detriment of healthcare consumers and providers.

It is important to understand that the commercial managed care market is not a single market. A market requires products to be substitutable, i.e., a purchaser can evaluate all products that are available in the market and can select from among them. A Pennsylvania consumer seeking to purchase health insurance does not have access to all commercial managed care products. There are, in fact, three markets for health coverage and when each of the markets - the market for individual coverage, the market for small group coverage and the market for large group coverage are examined separately, it is clear that, for some customers, these health insurance markets operate on a statewide basis. Of course, there exist additional markets for behavioral health programs and ancillary products but I am focusing primarily on group and individual physical health products today.

Understanding that the health insurance market operates for some customers on a statewide basis is important because the consolidation of Highmark and Independence Blue Cross will create a single entity that will have a dominant market share in the state. In 2006, Pennsylvania's population was 12,345,000. 1,986,000 of these residents were covered by Medicare and 1,473,000 were covered by Medicaid. In addition, Pennsylvania had 1,237,000 uninsured residents. The commercial insurance market therefore included 7,649,000 residents. Highmark provided coverage to 3,362,944 of these residents (44.0 percent). IBC provided coverage to 1,899,740 residents (24.8 percent). On a combined basis, Highmark and IBC provided coverage to 68.8 percent of the Pennsylvania commercial health insurance market.

When considering a merger or consolidation, it is important to determine who will benefit. Reduced administrative costs are a commonly cited benefit of a consolidation. Although this benefit is cited

frequently, it is important to understand that few, if any, health insurance company mergers in the past ten years have resulted in lower administrative costs. The complexity of health insurer operations and their reliance on information technology has meant that administrative savings have been elusive.

In 2007, I served as the financial consultant to the New Jersey Commission on Rationalizing Health Care Resources. The commission was established by Governor Corzine to address concerns about the financial instability of many of the state's hospitals. My review of hospital finances in Pennsylvania raises similar questions about hospitals' ability to withstand increased financial pressure. Pennsylvania hospitals have lower margins, less liquidity and are less able to cover their existing debt than the average U.S. hospital. More importantly, Pennsylvania hospitals have physical plants that are more than 14 percent older than the plant of the average U.S. hospital. The consolidated Highmark/IBC entity will have extraordinary leverage in hospital contracting at a time when hospitals are considerably less able to withstand that leverage.

Because of their size, Highmark and IBC already have significant competitive advantages in the Pennsylvania market. Their advantages are evidenced by the difficulty other health insurers have in competing in Pennsylvania as compared to other states. If the consolidation is approved, the combined entity will provide coverage to at least two-thirds of Pennsylvania's residents and have financial resources that will be used to further increase that already-substantial market share. Consolidation will certainly not make it easier for other health insurers to compete in Pennsylvania, and will likely make such competition even more difficult than it is today. Furthermore, no meaningful benefits will accrue to the residents of Pennsylvania that offset the impact of the resulting decline in competition.