

Testimony of
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Public Hearing

Consolidation in the Pennsylvania Health Insurance Industry: The Right Prescription?

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Testimony by Kenneth R. Melani, M.D.
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My name is Dr. Ken Melani, and I am president and chief executive officer for Highmark. With me is Joe Frick, the president and chief executive officer for Independence Blue Cross. We want to thank the Committee 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.

Since we spoke to the Senate Judiciary Committee in April 2007, we have been engaged in an extensive review process involving state and federal regulatory agencies, with input from state and federal public officials. This is an important, cooperative and open process. Today, we continue this open dialogue about how this combination will better serve the needs of the people of Pennsylvania.

Our companies have a proud tradition of serving Pennsylvania as non-profit companies. For 70 years, IBC and Highmark have had a common mission: to help ensure that health care is available, affordable and of high-quality for all Pennsylvanians.

Throughout our history, we have made health insurance programs available to everyone, regardless of age, gender and health status. We have provided assistance to people in financial need, by subsidizing health insurance programs for children, lower-income individuals and families, and older adults. Moreover, we have provided financial support for health education and community health programs.

At the same time, according to a study performed by a market research firm, Tripp-Umbach, Highmark and IBC have had a significant, positive impact on Pennsylvania, with a total annual economic impact of \$4.2 billion on the state's economy. The companies employ approximately 18,000 people in high-quality jobs in the state and purchase a significant amount of goods and services from Pennsylvania-based businesses.

This transaction, however, is not about the past or the present. It is about the future and about preserving our non-profit status. And it is about laying the foundation for positive change in the way health care is delivered and paid for in Pennsylvania. Coming together, our two companies can remain a financially vibrant Pennsylvania-based company and achieve tangible savings and growth opportunities of more than \$1 billion that will be used to address health care costs, quality and access to medical care in Pennsylvania.

This combination will also allow us to strengthen our contribution to the Pennsylvania economy - by the way we employ people, by creating new businesses opportunities for Pennsylvania-based businesses and by supporting the community through programs and services that we have historically embraced.

The proposed combination is important given the challenging health environment. Health care costs are rising dramatically. We know that the cost of health care is making health insurance less affordable for businesses today. As a result, fewer businesses are able to maintain health care coverage and more people are joining the ranks of the uninsured. We are also seeing more people moving to public health insurance programs, which means more health care coverage is being financed through the federal and state governments.

The demographics of Pennsylvania also present challenges. The state has an aging population that is creating more demand for health care services. We also have an aging workforce in many industries, including health care. This places an added strain on the health care system as the aging population uses

more medical services. Questions are also being raised about the quality of health care today and the variation in medical care from community to community for people with the same medical condition.

With these critical issues facing us across Pennsylvania and nationally, rapid change is occurring in health care. Consumers are taking greater responsibility for their personal health care decisions and their costs. This change is creating the need for investments in technology so people can access their own personal health information and have programs available to better manage their own health.

As these forces shape health care, two points have become very critical to business success. First, scale has become increasingly important to achieve greater efficiency and lower administrative costs. The scale of competition has shifted from a local to a regional and national basis. We have a growing need to be a multi-product, multi-market company to compete in the future, to spread our risks and to better serve our customers. Second, there is a growing need for capital for investments to meet the marketplace demands that we outlined earlier.

The health insurance industry is responding by consolidating. In the past 15 years, the top 20 insurers have substantially increased their share of subscribers in the commercial health insurance market. Even more significant, during the same period, large, well-capitalized for-profit insurers have gained a much larger share of commercial health insurance subscribers compared to non-profit health insurance companies.

The largest players in health care today are WellPoint, United HealthCare, Aetna and CIGNA with anywhere from 13 million up to 35 million subscribers. They have the scale, the product diversity and the geographic diversity to spread their operating costs over more members. They also can leverage their large subscriber base to obtain better pricing from national suppliers of laboratory services, durable medical equipment, radiology services and pharmaceuticals. In contrast, Highmark and IBC, combined, have eight million subscribers.

Consolidation isn't unique to the for-profit health insurance companies. It's happening in the Blue Cross and Blue Shield system in the United States as well.

Today, there are 39 independent Blue Cross and Blue Shield companies. That is one-third the number since 1980, when there were 115 Blue Cross and Blue Shield companies. In fact, some Blue Cross and Blue Shield companies operate in multiple states. These companies have gained operating efficiencies and can better serve their customers.

Pennsylvania stands alone in that we have four independent Blue Cross and Blue Shield companies. This is problematic because we are operating less efficiently than we could be by investing in redundant technologies and capabilities that add more cost to the state's health care system.

As the two companies have looked at the changing health care environment and the need for greater scale and more capital, it has become clear that the combination of IBC and Highmark is a natural fit that would bring significant benefits to the people of Pennsylvania. The two companies have almost identical missions and have worked together for over 50 years to better serve the community, through programs like the Caring Foundation. We also have complementary products. Highmark's vision, dental and stop loss lines of business complement IBC's pharmacy benefit management, third-party administration and workers compensation programs. Together, our two companies can offer a core blend of products to better serve our customers on a common platform.

What's most important is that bringing our companies together will not lessen competition in commercial health insurance or reduce choice in any market in Pennsylvania in the future. Our subscribers will continue to have the same wide variety of choice from a competitive health insurance market as they have today.

Although over 100 witnesses appeared at the recent Pennsylvania Insurance Department hearings - and many others have filed comments with the Insurance Department - we are not aware that any of our over 50,000 commercial group customers have complained that they will have less choice for insurance the day after the transaction than they have today.

And lastly, the United States Department of Justice has twice reviewed the proposed consolidation of the two companies and both times cleared the transaction under federal antitrust law.

Thank you.