

Testimony of

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President/CEO, Holy Redeemer Health System

Before

The United States Senate Committee on Judiciary

Subcommittee on Antitrust, Competition Policy and Consumer Rights

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Consolidation in the Pennsylvania Insurance Industry: Right Prescription?

Chairman Kohl, Senator Specter and Members of the Subcommittee,

My name is Michael Laign. I am President and CEO of Holy Redeemer Health System -- a non-profit organization which provides a wide range of healthcare and health-related services, including an acute care hospital, home health and hospice services in Pennsylvania and New Jersey, two skilled nursing facilities, assisted living, a retirement community, low-income housing, an active living community, and a transitional housing program for homeless women and children.

While not an expert on federal antitrust issues, I appreciate the opportunity to share our views with the Subcommittee on the proposed merger and consolidation of IBC and Highmark, particularly as IBC coverage/programs today represent approximately 24 percent of our existing revenue.

At the outset, I want to commend Senator Specter for his role in holding this public hearing as well as the hearing in Philadelphia in April of 2007. Given the significance of this issue, we appreciate Senator Specter's commitment to ensuring that the consideration of this proposed merger is as transparent as possible. In addition to their roles as major health insurers, Highmark and IBC are important parts of the business and civic fabric of their respective communities. All of us in the Commonwealth have a stake in the outcome of this process.

While I share some of the fears and concerns expressed by some of the other witnesses here today, on balance I see this merger as an opportunity to address needed change to the health care delivery and financing system in Pennsylvania.

To achieve positive change, however, I believe there are a number of important safeguards that must be implemented as a part of this merger. I will touch on these safeguards in a moment.

Why does this merger deserve serious consideration? I think we have to start from the premise that a strong, financially viable Blue Cross plan is in the interest of all consumers, businesses and providers in the Commonwealth. I think economies of scale and administrative efficiencies that can be achieved by this merger that are in the public interest.

Further, a Blues plan whose core business and interests are focused on Pennsylvania is in our collective long term interest. Given the consolidation trends nationally, if these two plans are not permitted to merge, I think it is only a matter of time before we will be participating in hearings in the Commonwealth about proposals for one or both plans to merge with or be acquired by an out of state entity. Holy Redeemer Health System would rather deal with a plan and a plan leadership with a vested interest in making Pennsylvania a better place to live and work.

I know arguments have been made on both sides of the issue about the competition or lack of competition between Highmark and IBC in Southeastern Pennsylvania and other parts of the state. The two plans point to the fact they don't currently compete as an indication that the merger won't affect the competitive state of the insurance market in our state. Whereas others suggest, that without the 1996 non-compete agreement, the two plans could compete today and that would be good for Pennsylvania consumers, business and providers.

In a sense both arguments are "right", but both miss the underlying long term challenge we face in making our health care system work better for all stakeholders. Yes, as a practical matter it is hard to see how IBC could get much stronger in Southeastern Pennsylvania . . . it has a dominant position that the merger will only marginally affect.

Some would argue that the market competition between Highmark and Capital Blue Cross was good for some businesses as well as some providers in the central part of the state, and therefore competition between Highmark and IBC would be good too.

But in my view both are short term arguments. From my perspective, our health care system has and will continue to suffer from an abundance of short term thinking, everyone, including government, is out to cut the best deal for themselves at the expense of creating an affordable, sustainable system that serves all our interests. We must all think of the long term costs to our communities of the considerable resources devoted to marketing, market share underwriting, duplicative administrative structures and, yes, possibly higher than necessary provider payments that would ensue for a period of time if these two plans were forced to compete head to head across our state.

I don't think we can afford the cost. I think we all recognize both in Pennsylvania and across the nation that the rate of increase in health insurance costs is not sustainable over the long run. Employers, consumers, state and the federal government are all struggling to maintain coverage not to mention the continuing growth of under and uninsured citizens.

In short, for us in Pennsylvania I think the merger between Highmark and IBC represents an opportunity to begin to rationalize and transform the health care system in the Commonwealth for the future. This is a once in a generation opportunity to help reform and shape the health care system through an health insurance enterprise that by all estimates would be responsible for over 50 percent of the health care lives and revenues in our state.

The merger done properly, with the right leadership, appropriate safeguards and appropriate, sustained government oversight, could help to:

1. Reduce the staggering administrative costs associated with our current health care system,
2. Improve quality by reducing regional variations in care and enhancing adoption of evidenced based standards of care,
3. Achieve greater uniformity in our patient safety and process improvement efforts,
4. Improve access to coverage,

5. Enhance the affordability of coverage

6. Create a more transparent system

If coordinated with complementary and consistent government health program policies, it should be possible to help drive many needed reforms of Pennsylvania's health care system. In making this case, I fully understand how difficult it will be to achieve these kinds of objectives. But not seizing this opportunity will result in business as usual.

We can't afford a business as usual approach. The current health care system is not sustainable for consumers, business or providers.

In Southeast PA, we have seen some glimpses of what the future could be. For the past several years, IBC has engaged the provider community in a series of partnerships. For example, IBC and an organization I chair, the Health Care Improvement Foundation, led the formation of the Partnership for Patient Care to coordinate patient safety and clinical process improvement efforts. Its focus is to accelerate the effective adoption of evidence-based clinical practices by pooling the resources, knowledge, and efforts of healthcare providers in our region. Every acute care hospital in the Delaware Valley has participated in the Partnership, and it has now been expanded to long term care providers and other stakeholders. Under this partnership we have tackled medication safety, health care acquired infections and a series of other issues ranging from patient falls to MRSA. Examples of the benefits include:

? Over 20 percent improvement in adoption of glucose control and antibiotic administration practices to prevent surgical site infections

? Reduced DVT (Deep Vein Thrombosis) complications through 20 percent gains in compliance with risk assessment and prevention protocols

? Leadership of the Fight MRSA! Alliance, taking action to address MRSA as a community-wide issue

This year we have undertaken projects involving to eliminate wrong-site surgery, prevent pressure ulcers across all types of care settings. IBC's substantive and financial contribution to these efforts has been a key part of our success.

On another level, my system, IBC and CARDONE INDUSTRIES (auto parts manufacturer) have collaborated to create a virtual partnership for the provision of high quality, cost-effective health care, wellness screenings, and illness prevention and education services for CARDONE employees and their families.

Through this partnership, which supports care coordination and care management, CARDONE INDUSTRIES is ensured healthier, more productive employees while the company benefits from reduction in health care-related expenses such as high cost drugs, inappropriate and over-utilization of services, as well as inconsistent access and other service issues.

As I indicated previously, any merger of Highmark and IBC must include important safeguards or conditions built into the approval process. I believe it will be necessary for state government to create a new oversight framework to ensure balanced mix of regulatory oversight and market forces which provide financial incentives that reward both payor and provider conduct that serves the interests of subscribers, patients and the overall public interest.

While I don't presume to have all of the answers, I would like to briefly summarize a few specific examples of the types of safeguards and conditions that I recently presented in testimony to the Pennsylvania Insurance Commissioner.

First, both Highmark and IBC have stated that the merger will result in a \$1 billion dollars of savings by "providing scale, generating operational efficiencies and eliminating unnecessary redundancies." Much of this refers to new IT systems for claims processing and other administrative efficiencies.

We believe the department should require that these administrative efficiencies be clearly articulated and include an objective of moving towards all electronic claims submission, instant claims adjudication for the majority of claims and a reinstatement of Periodic Interim Payments (PIP) until those objectives are met and the new administrative systems are functioning properly. By implementing PIP, providers won't be penalized by claims processing foul ups and the new merged entity will have a financial incentive to get their systems operating, efficiently and effectively. Further, there should be a mechanism to help providers and the new company develop consensus on administrative standards, systems and technologies that could become the accepted standard for health related administrative transactions in Pennsylvania.

Second, I believe some of these savings should be devoted to enhancing access to primary care. In general, the payments to primary care providers are not enough to remain viable economically.

According to a study of physician payments in our region, it appears that most commercial insurers' physician payments are based on some percentage above Medicare whereas Blue Cross payments were at times below Medicare. This is a market imbalance that needs to be addressed. It is in the interest of all concerned to make sure there is adequate access to primary care services.

Third, we need a more transparent system. At a minimum, there should be a periodic independent audit of the provider payment practices of all coverage plans under the new merged Blue Company to assure that payments for services to all providers are adequate to sustain a quality health care delivery system for all Pennsylvanians.

Fourth, in recognition of the highly concentrated market conditions in Pennsylvania and the market power the merged Blue company would have, several safeguards new to be put into place.

A. Provider Payment Appeals Process: for individual and small groups of practitioners and other independent providers a mechanism should be created to help resolve contractual disputes related to payment terms and conditions.

B. Arbitrary Anti-competitive Practices should be barred. If the merger is approved, the new company should not be allowed to impose "most favored nation clauses" or other restrictions such as prohibitions on provider plans/risk bearing entities as a condition of entering into a Blue Cross contract.

Lastly, one of the key concerns is the accumulated surplus of both IBC and Highmark. If approved, the new merged entity should be required to work with state government and other stakeholders to design an actuarially sound catastrophic coverage plan that could cover all Pennsylvanians and that all residents would contribute to. While we don't have time to go into all the details of this proposal, the catastrophic coverage plan would have a high threshold and spread the costs over all residents, and therefore it would be relatively inexpensive. It would re-create the broadest possible risk pool for the relatively small number of catastrophic cases, reduce insurance costs for business, and protect every resident of Pennsylvania, both insured and uninsured, from what they fear the most . . . catastrophic costs of a major illness.

In effect the new merged company should play a "public utility role" for purposes of providing universal catastrophic coverage for all Pennsylvanians. By creating a universal mechanism to cover catastrophic illnesses, it should help stabilize private sector coverage as well as make it easier to fashion affordable market based solutions for routine medical expenses whether under the Governor's Cover All Pennsylvanians or other approaches. In short, catastrophic coverage is not a replacement for, but rather a step towards achieving our shared long term goal of comprehensive health insurance coverage for all residents of the Commonwealth.

Mr. Chairman, as I indicated previously, while Change is always Uncomfortable, I view this merger as an opportunity to help shape a new and better health care system for Pennsylvania. Again thank you for the opportunity to share our views. I would be happy to answer any questions you may have.