

Testimony of

Joe Frick

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Public Hearing

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

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Testimony by Joseph A. Frick

President and Chief Executive Officer

Independence Blue Cross

I also want to thank the Committee for the opportunity to speak with you today. As Ken mentioned, we have a proud tradition of serving our subscribers and our local communities. Our two organizations have had a long-standing and positive partnership, and we have a responsibility to promote the value and enhance the trust of the Blue brand, which serves more than one in three Americans.

So while coming together is a logical extension of our historical partnership, we believe that the business growth opportunities and anticipated efficiencies and savings will enable us to achieve several real and important goals. First and foremost, we are committed to help make health insurance more affordable. Affordability is the number one issue with our subscribers, and we have a responsibility to do better on this issue.

At the same time that our subscribers are demanding that we help control costs, they also want us to continue to invest in products and services to help improve quality and health care outcomes and to expand our efforts in health promotion and wellness programs.

Physicians, hospitals and other health care providers have been valued partners in our companies' mission of assuring access to high-quality networks of providers. We are committed to maintaining our well-established relationships with providers and enhancing incentive programs to help ensure the delivery of high-quality care.

We will continue to be a viable and successful leader in our communities. Our combined resources are expected to generate new business, which can help bring more jobs to Pennsylvania and stimulate additional business opportunities for Pennsylvania-based businesses.

Our final goal is to more effectively use technology to make it easier for our subscribers and providers to do business with us. We are committed to work tirelessly to achieve these goals.

To support these goals, we have identified tangible benefits that the proposed combination will achieve. By combining the two companies - and only by combining these companies - we will be able to generate more than \$1 billion in additional economic benefits over six years. This is new money and goes beyond any commitments we have today.

These additional monies will be generated by savings from business efficiencies and growth opportunities that the companies could not produce individually. And unlike with consolidations of publicly held companies, where the savings flow to shareholders, every dollar of the economic benefits of this combination will go back to improving health care in Pennsylvania.

In addition to the \$1 billion, we have also agreed to voluntarily extend the Community Health Reinvestment Agreement with the Commonwealth for three more years. That agreement is currently set to expire in 2010. This represents an additional, estimated \$350 million that can be used to help more Pennsylvanians obtain health care coverage.

Let's now look at specific benefits for different industry stakeholders. For our subscribers, we pledge to freeze the administrative fees of their health insurance premiums for two years. This represents a direct savings to our subscribers of \$295 million.

In addition to the administrative cost commitments, we also expect to save our subscribers another \$285 million on prescription drug costs by capturing higher rebates and pharmacy discounts and lowering administrative costs - savings possible only with a larger subscriber base.

We expect that an estimated \$100 million of the efficiencies generated by the consolidation will be used to fund expanded health care quality programs. These could include continuing and expanding each company's ePrescribing programs and encouraging implementation of standardized personal health records and electronic medical records. Greater use of these tools leads to higher quality care and fewer medication errors, which will result in greater savings for subscribers in the long run.

The new company also plans to combine and expand the best of the health promotion and wellness programs offered today by Highmark and IBC to help improve the health and well-being of our subscribers. Over time, a healthier workforce will be more productive at work and consume fewer health services. Moreover, we will offer our subscribers a wider array of products and services - integrating vision, dental and disability programs to their medical and pharmacy health plan choices.

We are proud of our long-standing relationships with physicians, hospitals and other providers. The value of our brand is based on the fact that we offer our subscribers broad, high-quality provider networks - and health care providers will remain important partners in the future. We believe the consolidation will benefit health care providers in a number of ways.

In the past few years, IBC and Highmark have pioneered a technology tool called NaviNet to help simplify administrative transactions with physician offices and hospitals. The consolidation will enable us to build upon this capability so that physician offices and hospitals can spend more time to improve patient outcomes, patient safety and the health and wellness of their patients, and worry less about administrative tasks.

We will be committed to provider payment levels that preserve our networks and help promote optimal quality of care. This is why we plan to expand pay-for-performance programs that provide incentives for health care providers to deliver increasingly high-quality care. We all recognize that payments based on volume of services are no longer sustainable in today's health care environment, and that incentives must be aligned to promote quality of care and the delivery of evidence-based care.

And here is one very important point. Not one dollar of the \$1 billion in economic benefits will result from reductions in provider reimbursement.

Over the past few years, Highmark and IBC have developed close working relationships with hospitals and physicians which are focused on improving patient safety and reducing prescribing errors. The new company will seek to expand these partnerships to help raise the bar in the delivery of high-quality care.

Lastly, let me talk about how the consolidation will benefit our local communities, where our employees, our subscribers and their families live and work. IBC and Highmark have carried out our community mission in many ways, none more critical than offering coverage to individuals and families who the large, for-profit insurers will not insure. Our coming together will enable us to continue to subsidize programs for the uninsured, lower-income families and older adults. In addition, we will commit \$300 million to new and existing programs for the uninsured, the underinsured and small business employees. The new company intends to work with key stakeholders and public officials to identify the most effective ways of using these monies.

Together, these commitments total \$1 billion in new money, plus the additional \$350 million to extend our commitment to the Community Health Reinvestment Agreement.

The new company will build upon our long-standing support for programs and services aimed at addressing community health needs. We believe there will be tremendous opportunity to expand our companies' current programs statewide, such as grieving centers for children and families, funding for medical and dental clinics for the uninsured, addressing childhood health issues and providing scholarships to increase the supply of nurses. Just last year, IBC and Highmark provided about \$200 million in community contributions to expand access to health insurance and support a variety of community health and human services programs and services.

In conclusion, the consolidation is important for us to remain a viable, non-profit company that will strengthen our commitment to the community and economy of Pennsylvania. Do we expect to grow our business? Absolutely. And this business growth and the resulting revenue will be supported by additional jobs and investments in Pennsylvania.

No one company or organization, alone, can solve all the problems of the health care system. We believe, however, this consolidation offers a pathway to positive change in our health care system that Pennsylvanians are looking for.

Thank you.