

**PA House of Representatives Insurance Committee Public Hearing:  
UPMC/Highmark Provider Contract**

**August 25, 2011**

**Testimony from Thomas Henschke, President, SMC Business Councils**

For the past 65 years, SMC Business Councils has helped Pennsylvania small businesses join together to foster mutual interests. With offices in Pittsburgh and Harrisburg, SMC has several thousand members in the service, manufacturing and commercial sectors. Companies include a diverse range from small family businesses to sophisticated marketing companies, information technology firms, world-class manufacturers and more. We've facilitated health insurance benefits to members for decades and are well versed in the needs and challenges facing small business.

Last week SMC Business Councils hosted a Highmark/UPMC town hall meeting for members. My testimony includes feedback from SMC Members and both Highmark and UPMC.

**What do we know about Highmark and UPMC? Clearly they are doing very well.**

- Highmark is the dominant health insurer in southwestern PA.
- UPMC is the dominant health system in southwestern PA.
- Highmark has operations throughout PA and in West Virginia.
- UPMC has operations in other countries.
- In 2010, total revenue for Highmark was \$14.6 billion, up almost one billion (\$901,000 from 2009). In 2010 net income for Highmark was \$462.5 million, a 146% increase in profit from 2009.
- In 2010, UPMC's operating revenue grew by \$325 million to \$8 billion.
- Highmark's surplus reached \$3.7 billion in 2010, up from \$3.4 billion in 2009.
- UPMC's accumulated profits/surplus stands at \$3.1 billion.
- Highmark and its affiliated companies had approximately 4.8 million health care subscribers at the end of 2010.
- Enrollment in UPMC's insurance services grew 5% in 2010 to 1.46 million members.
- UPMC receives payments totaling \$2.0 billion/yr from Highmark.

**What do we know about small businesses? Many are hurting. Any increase in health insurance costs is too much for small business.**

- The cost of health insurance is a crisis for small business - unsustainable health insurance costs have a negative impact on other parts of their business, i.e. higher turnover and preventing business growth.
- Higher costs are passed on to employees in the form of lower wages. Higher out of pocket costs eat into take home pay and eat into the profits of small businesses that could otherwise be used for research and development and reinvestments.
- Small business, the proven engine of economic growth, is being forced out of system. Many small businesses spend more than 10% of their payroll on health care costs.
- Because of their higher health insurance premiums, fewer and fewer small businesses are able to offer healthcare coverage. This is the start of the demise of the private employer-based system.

**What do SMC Member small businesses say they need? Our members need clarity and a timely resolution. They are very concerned about a disruption in medical care and losing long-standing relationships with physicians**

Currently, UPMC and Highmark have a contract where UPMC doctors are in the Highmark network, and therefore, UPMC will accept Highmark health insurance for services rendered. UPMC has publically stated that this contract will expire on July 1, 2012, whereby UPMC doctors will no longer be in the Highmark insurance network. Highmark asserts that UPMC hospitals will remain in its network for an additional year, through June 30, 2013.

On July 1, 2012, all patients with Highmark coverage will be forced to pay out of pocket costs in order to continue seeing UPMC doctors. Highmark has stated that on July 1, 2012, they will pay UPMC doctors at the in-network reimbursement level. UPMC has stated that it will balance bill Highmark subscribers for any sums not paid by Highmark. Please note that UPMC does not publish a price list for services. This makes it nearly impossible for a patient to know his/her out of pocket costs ahead of time.

Any small business with Highmark coverage renewing after 7/1/11 is facing a real dilemma: an uncertain health insurance renewal in terms of access to providers and a very uncertain renewal in terms of a potential volatile premium increase and potential out of pocket charges. Absent proper clarity and sooner (rather than later) resolution, many families may need to consider splitting their coverage between insurance carriers.

This spat between Highmark and UPMC is terrible for small businesses and their employees. SMC Member sentiment among those with Highmark coverage indicates a strong desire to maintain their current coverage with ongoing access to the UPMC health system. Most small business employees have no idea whether the physicians they see on a regular basis are “owned” by UPMC. In many areas the majority of practices are owned by UPMC.

Highmark asserts that an agreement to keep UPMC hospitals and doctors in their network will be reached. UPMC insists that it will not renew its hospital and doctor contracts with Highmark.

All of you need to take the lead in getting Highmark and UPMC back to the table.

**Small businesses need access to the community assets that their premium dollars helped to build. Access to community assets should not be used as a bargaining chip.**

Thankfully, Highmark has an agreement with UPMC for continued access to Children’s hospital through 2022. Children’s Hospital of Pittsburgh is renowned for its outstanding clinical services, research programs, and medical education. There are more than 1,000,000 visits to Children’s, its many neighborhood locations and pediatric practices each year.

Continued access to Magee-Womens Hospital and the Hillman Cancer Center is less certain. Small businesses and their families have come to rely on these great institutions. Magee-Womens Hospital of UPMC is ranked among the top 12 hospitals in the nation for gynecological care and is a National Center of Excellence in Women’s Health. The Hillman Cancer Center is both nationally and internationally recognized for its research via the University of Pittsburgh Cancer Institute and provides specialized diagnosis, treatment, prevention, and care for patients and their families.

Substantial charitable donations from local foundations and from across the community, have made possible improvements to the physical plants and capabilities for these facilities. Substantial community support also helps to underwrite operations. Magee-Womens Hospital, the Hillman Cancer Center and Children’s Hospital are community assets.

All of you need to explore every option including statutory intervention that requires UPMC and Highmark to ensure that the southwestern PA community has perpetual access to Children’s, Magee, and Hillman.

### **Highmark’s affiliation with West Penn Allegheny**

One healthcare system doesn’t work. Southwestern PA needs more than one health system. Southwestern PA needs a competitive market for healthcare – a cost that is reflective of the free market and coincides with quality of care. Small business should

be able to decide. We need to ensure we have a system that allows for competition in the community. We welcome competition. Competition means quality and efficiency. It means value: high quality at the lowest cost. No competition means, “take it or leave it” for consumers and purchasers when it comes to price, quality, and service.

But, here’s the problem... Supply and demand doesn’t work in healthcare. Demand doesn’t drive supply, it’s reversed - supply drives demand. The model is: build it and then drive demand. After a Highmark affiliation/acquisition of West Penn Allegheny Health System, what stops Highmark from expanding? How soon until small businesses subsidize a second children’s hospital, or cancer center, or women’s hospital. We can’t afford it! We don’t need duplicative services – there are bloated costs on both sides.

**Small businesses with Highmark coverage need the ability to maintain their current coverage with ongoing access to the UPMC health system.**

UPMC has stated that it will not renew its hospital contracts with Highmark because Highmark is becoming an integrated delivery and finance system (IDFS) just like UPMC. SMC Members are at a loss to understand why UPMC Health Plan would not contract with West Penn Allegheny Health System (WPAHS) and UPMC health system would not contract with Highmark, yet Highmark is willing to contract with UPMC even after it takes over WPAHS (assuming that occurs).

That concludes my testimony today. Thank you.

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