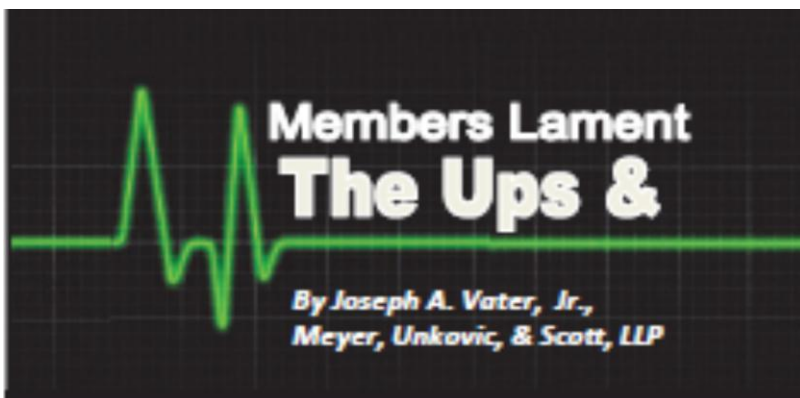


Members Lament: The Ups & Downs of Health Care in Western Pennsylvania,

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The negotiations between Highmark and UPMC have engendered heated discussion within the community at large, philanthropic circles and business groups. This is certainly not surprising since the failure of the largest health insurer and largest health care provider to enter into a new long-term agreement will have a significant impact on western Pennsylvania employers and employees. Through Highmark, western Pennsylvania employers have historically been able to obtain health insurance for their employees, which provided access to virtually every medical provider in the area. If Highmark and UPMC are unable to agree upon a long-term contract (even though a short-term agreement was reached in December, 2011), there is no doubt that once the short-term extension is up, employers and employees will have their health insurance worlds turned upside down. While most of the discussion has involved the impact of the failure of Highmark and UPMC to renegotiate their contract, this article will focus on the potential effect if these two parties agree to continue their relationship.

2002 Contract

In attempting to predict the future, it is sometimes helpful to step back and take a look at history. In 2001 and 2002 much was being written about the negotiations between UPMC and Highmark on a contract that was to expire on June 30, 2002. At that time, Highmark was critical of UPMC's cost and UPMC was complaining that Highmark continued to increase premiums. In 1998, Highmark established an insurance plan that did not include certain UPMC facilities. That program was known as Community Blue. Community Blue provided an option for employers to select a more affordable health plan with a reduced network. Employers and their employees cheered the resolution of the dispute in 2002 and the 10 years of peace that the contract would provide.

Ten Years of Peace

What has been the impact of the past 10 years of peace? The stated purpose of the Community Blue program was to compete with the UPMC Health Plan. However, the West Penn and Allegheny General Hospitals would have been in the Community Blue network. If that program would have been successful, more revenue would have been directed to the West

Downs of Health Care in Western Pennsylvania



Penn Allegheny Health System (WPAHS) providers. However, in early 2003, Highmark announced that it was discontinuing Community Blue at the end of 2003. For a very concise article about the Community Blue Program and its subsequent discontinuance, review Pamela Gaynor's article of March 27, 2003 in the *Post-Gazette*. Today, Highmark and UPMC have increased market share. WPAHS, UPMC's major competitor in western Pennsylvania, was near ruin and Highmark indicated that if it had to act to support that system or otherwise collapse was a real possibility. Prior to Highmark's investment in WPAHS, it sued UPMC and Highmark for antitrust violation. Health insurance premiums in western Pennsylvania have risen on average faster than the national average.

Today

The lack of a long-term contract between Highmark and UPMC has resulted in significant activity. For one side, UPMC is now offering its full network to HealthAmerica, Aetna, United Health Care and Cigna. These competitors of Highmark have been hamstrung previously in their ability to compete in western Pennsylvania with Highmark because of their lack of contract between UPMC and those insurers.

Those insurers now have a three-year agreement with UPMC and have been aggressively competing for business in western Pennsylvania. On the other side, Highmark has come to the financial rescue of the WPAHS. Highmark previously had funded the merger of the West Penn Healthcare System with Allegheny General Hospital in 2000. Highmark has publicly indicated its intent to establish an insurance plan with lower premiums to insured persons based upon the hospitals that would be in the network. This sounds similar to the Community Blue Program that Highmark abandoned in 2003.

Tomorrow

Knowing where you have been has always been an easier task than discovering where you will be. However, small business should consider possible consequences of Highmark and UPMC entering into a new long-term contract. First, what will be the negotiated reimbursements? Is my understanding that UPMC has entered into contracts with the other insurers on the same reimbursement terms that it had

proposed to Highmark. Highmark has labeled those increases excessive and indicated that it will drive up premiums for its customers. Assuming Highmark negotiated lower rates, Highmark would once again be put at a competitive advantage to the other health insurers and could continue its grip on the western Pennsylvania health insurance market.

Second, if an agreement is reached, would Highmark have the same incentives to invest the dollars necessary to enable the WPAHS to regain market share. If Highmark has another 10-year contract, it may not see the necessity to invest the needed funds in the WPAHS.

Third, if there is an agreement between Highmark and UPMC, will Highmark establish a tiered program. If the answer to that is no, then lower cost programs will not be available through Highmark. If the answer to that is yes, why would UPMC provide Highmark with its network to satisfy some customers while at the same time be content with Highmark establishing a tiered program that would benefit a competing health system, which Highmark would own.

Fourth, it is my understanding that if the long-term contract is not renewed next year, Highmark would be more agreeable to offer a fully insured program to employers side-by-side with other insurers allowing the employer to have some employees with Highmark and other employees with other insurers. This is something that Highmark does not offer to most of its employer groups. However, if a long-term agreement is reached, does that mean that Highmark will change its policy?

If a long-term contract is not reached this year between Highmark and UPMC, there will no doubt be trouble. However, before insisting that Highmark and UPMC enter into a new long-term contract, employers should ask what the long-term impacts would be if such a contract were entered into between these two moguls. Do employers believe that competition among health insurers has improved? Has competition among health care providers improved? I would venture to say that the answer to those questions is "No." Similarly, the same questions should be asked concerning the impact of a new arrangement between Highmark and UPMC. Whatever your answer to those questions might be, not enough discussion is occurring on these impacts yet. ■

(See the Cover Article on Page 14-16 for an Economic Outlook on the state of local health care issues.)