Pennsylvania House of Representatives
Health Committee
Public Hearing on HB 1621

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" Trying to explain Managed Care to a group of executives in Western PA is like asking the crew of the Starship Enterprise to go to Bedrock and explain warp drive to the Flintstones. It doesn't exist here, and can't exist here unless there is a dramatic change in the relationship between providers and the Blues."

Charles Davidson: Speech to Pittsburgh Group on Health, 1993

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Historical Perspective…
…How Did We Get Here?

1. **Highmark (and predecessors) as benevolent dictator**
2. **Resentment by providers**
3. **Rebellion by UPMC**

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Benevolent Dictatorship

- Historical Premise - Having the most covered lives equates to the best pricing
- Problem 1: This becomes a self-perpetuating system, in which the big can only get bigger and competition is shut out of the market.
- Problem 2: What happens when the benevolent dictator starts try to control the behavior of the providers?

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Resentment by Providers

- Mid-1990s- Blue Cross pushes toward managed care in Western PA
- Newly Formed Highmark starts to build and acquire physician practices
- Negotiations for pricing start to become real negotiations, not just cordial discussions
- Highmark's power to dictate terms becomes very apparent, breeding resentment and frustration

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Rebellion

- 2001-2002 UPMC almost leaves the Highmark network, threatening to end its relationship and not sign a contract.
- 2002 Last minute negotiations between result in a 10 year extension
- UPMC aggressively embarks on long term development of its own Insurance Services Division to compete with Highmark

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2008 Proposed Merger Highmark and Independence BC

"The proposed merger will be the best thing for both the PA Blues and our Commonwealth, but only if the Insurance and Health Departments can find a way to equalize the playing field. The pricing advantage of the Blues with Providers is unfair to consumers, employers and the providers themselves, who seem unable or afraid to challenge Highmark on unfair pricing in their contracts."

Charles Davidson: Testimony before Joel Ario, 2008, at public hearing for the merger.

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What Drives Healthcare Purchasing?

- **Geography**: People do not want to go a long distance to see their doctors and hospitals
- **Quality**: If someone is really sick, they will travel to see a provider who is an expert.
- **Pricing**: Historically unknown to the patient because of no transparency. Will become a much greater factor with the increase in deductibles and copays under the ACA.

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Highmark is facing a crisis of Geography, Quality and Pricing

- **Geography**: UPMC is by far the largest provider. Without having the UPMC facilities, Highmark will lose large numbers of subscribers based on not having the "local access."
- **Quality**: UPMC is perceived as having the highest quality providers. WPA is perceived as good, but not as good as UPMC.
- **Pricing**: Highmark was built on a having a large competitive pricing advantage of having the lowest rates. Without that advantage and without draconian cuts in overhead, it will likely have to raise rates and that will cause it to lose significant market share.

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Pricing Advantage of Highmark
A $90,000 Hospital Bill

Highmark	$35,000
National Carriers	$67,500 (25% discount)
Taft-Hartley Plans	$72,000 (20% discount)
Third Party Administrators	$72,000 (20% discount)
Independent PPOs, Large Single Employers	$72,000 (20% discount)
Uninsured Individual	**$90,000 No Discount (but hospital will do a reduced payment plan for whatever patient can pay/month)**

Uninsured Individuals—The Biggest Losers

Mr. and Mrs Smith live in Harrisburg with their 10 year old daughter. Mr. Smith works 2 part time jobs and Mrs Smith works 1 part time job.

Combined family income is $62,000/year, too much for Medicaid. They currently pay between $500-2000/year for medical costs.

They want, but cannot afford health insurance, which would cost $65500-7000/year and have a $12,000/yr out of pocket max. A similar policy on Healthcare.gov would cost $4500-5500 after tax subsidies---still too much for the Smiths' to afford.

IF A MEMBER OF THE SMITH FAMILY ENDS UP AT UPMC, THEY WILL HAVE TO PAY UPMC FAR MORE THAN HIGHMARK, AETNA, CIGNA, UNITED OR ANY OTHER PAYOR. DOES THIS MAKE ANY SENSE, OR IS IT TIME FOR A CHANGE?

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Proposed Solution: HB 1621

- Requires hospitals in an "Integrated Delivery Network" to contract with any carrier
- Prohibits the hospitals from restricting access based on the coverage offered or use of tiered networks
- Prohibits using hospital profits to subsidize insurance business
- Permits hospital rates to be based on "sound actuarial data"
- If parties cannot agree---binding arbitration

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What Is Wrong With HB1621

- It perpetuates discrimination by failing to protect Individuals without insurance, Taft Hartley Plans and Self Insured Employers who do not use carriers to administer benefits.
- Only applies to Integrated Delivery Networks. Why should ANY hospital or doctor be allowed to discriminate?
- Mandatory Arbitration: Too expensive, too lengthy, too unpredictable, and not necessary.

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Biggest **Problem With HB 1621**

The purpose of this proposed law is to protect Highmark from losing access to the UPMC network. What happens if the law passes as written and UPMC sells its health plan? UPMC will no longer be an "Integrated Delivery System" as defined in the law and neither Highmark (nor any other payor) will have any protection or access unless UPMC decides it will favor that payor.

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The Right Solution: Transparency and Equality In Pricing

- Require All Providers to charge the **same price to any commercial payor**. This will cause payors to compete on efficiency and administrative excellence and lower internal provider costs.
- If a payor has a tiered system, allow any out-of network provider to add a 10% surcharge at the discretion of the provider (Optional).

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Approaches In Other States

- Maryland: The state sets the price that hospitals can charge.
- Separate Networks From Carriers: In many states a network owned by a carrier will still "sell" the discounts to other payors through access agreements.
- Independent PPO Networks: Where providers have been educated about competition, the price differentials are less than 10%.

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Pennsylvania Needs A Legislative Solution

- The current system is discriminatory.
- The people who suffer the most are the uninsured who end up paying the highest price, despite being the least able to afford it.
- Greater transparency and pricing equality will create more choices and better competition for health benefit delivery in PA.

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Questions and Answers

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