

**Testimony of
James R. Buckley, President
Delaware Valley Health Care Coalition, Inc.
Before the
Pennsylvania Senate Banking and Insurance Committee**

Mr. Chairman, Members of the Committee:

Good morning. My name is James R. Buckley. I am President of the Delaware Valley Health Care Coalition, Inc (DVHCC). The DVHCC is a group of Union Multi Employer Health and Welfare Funds, who joined together to improve each Fund's individual purchasing power. At the present time, we represent ninety-two (92) Union Funds located in the Commonwealth of Pennsylvania representing one-hundred ninety thousand (190,000) Members and, when Members' dependents are considered, we easily represent more than four hundred thousand (400,000) participants.

Approximately one billion, five hundred million dollars (\$1,500,000,000.00) is an extremely conservative estimate of the DVHCC Member Funds' overall health care dollars spent for annual hospital/doctor services for calendar year 2007. The DVHCC Member Funds are located across our Commonwealth from Pittsburgh to Philadelphia and are found in most of the counties in between.

It is also part of our mission to research, evaluate and creatively develop programs that improve the quality and efficiency of health care and various health care delivery systems. In keeping with the DVHCC mission, we have

recently executed a Health Insurance Contract with Independence Blue Cross, Inc. (IBC) to service our Member Funds' in the Philadelphia Five County area and have contacted Highmark Blue Cross, Inc. to determine whether they have an interest in completing a similar contract with the DVHCC. Additionally, we continue to negotiate contract terms with Aetna, Inc., UnitedHealth Care, Inc. and Anthem Health Care, Inc. to service our remaining one hundred and two (102) Member Funds operating in the eleven (11) states where their members live.

I wish to thank this Committee for allowing me the opportunity to bring forth the DVHCC Directors' views on the proposed merger of Highmark and Independence Blue Cross and the effect it may well have on the delivery of and payment for healthcare in our Commonwealth.

In its deliberations concerning this merger, the Pennsylvania Legislature has a unique opportunity to create meaningful reforms to promote the efficient and effective delivery of health care to the citizens of Pennsylvania. This worthy goal, we submit, can be accomplished with the adoption of one straightforward concept - "transparency."

Transparency in Healthcare Will Promote Both Effective Competition and the Efficient Delivery of Healthcare Services

When one speaks of transparency in healthcare, the concept must be implemented at both the delivery and payment stages of the process. At the outset, I would note that we applaud any legislation that focuses on reducing

preventable infections and misadventures. The savings to all Pennsylvanians should be tremendous in light of the fact that the Pennsylvania Health Care Cost Containment Council (PHC4) reported in 2005:

- hospital-acquired infections resulted in additional costs of approximately \$1 Billion in Pennsylvania alone.
- Although there is no available Commonwealth Cost Data on Misadventures, one can easily understand the cost must be in the millions of dollars.

When savings are accomplished through the elimination of preventable infections and misadventures, they must be equitably shared with participants in the form of reduced premium or retention costs.

Transparency at the healthcare delivery level will force providers to be more careful in their practices and thus, more efficient in the delivery of healthcare services. By definition, and has been demonstrated in study after study over the past several decades, efficient healthcare leads to quality healthcare. In addition, in this age of consumer-directed healthcare programs, knowledge of a healthcare provider's practices and efficiencies, in turn, empowers the healthcare consumer with information to make better, more informed, healthcare decisions.

Turning to transparency at the payment stage of healthcare requires several introductory comments. In most industries, competition drives up value for customers over time as quality improves and costs fall. It is often argued

that healthcare is different because it is complex, because consumers have limited information, and because services are highly customized. Healthcare undoubtedly has these characteristics, but so do other industries where competition works well. In healthcare, however, costs are shifted from the payer to the patient, from the health plan to the hospital, from the hospital to the physician, from the insured to the uninsured, and so on. Hospital published charges and “discounts” off these inflated charges are meaningless. Only a select few know exactly what is actually paid for hospital care by the large insurers in this Commonwealth. The lack of payment transparency – the game of “hiding the pea” – stifles competition and prevents any meaningful analysis of the actual value and efficacy of any given array of healthcare services delivered at any given healthcare facility. Again utilizing the data from the Pennsylvania Health Care Cost Containment Council, which is an extremely valuable source of information for the DVHCC and our Member Funds has compiled report after report confirming that higher charges do not equal to higher quality healthcare. As an aside, I must note that unfortunately the PHC4 must operate under a sunset provision, which periodically threatens to terminate their existence. That sunset provision should be removed by the Legislature.

Discounts are dishonest. Health funds, such as the DVHCC Member Funds I represent, may think they are getting a great deal because of a seventy-two percent (72%) discount off the hospital’s published charges; but in reality,

the insurer may only pay the hospital what amounts to an effective twelve percent (12%) of charges, keeping this hidden spread in its favor for itself.

Health plans, hospital groups, and physician groups have consolidated primarily to gain more power and to cut better deals with suppliers, payers and/or customers. Unfortunately, the consolidation of health plans and care providers results in less patient access to medical innovations and limits the services covered.

Competition in the health care system occurs at the wrong level, over the wrong things, in the wrong geographic markets, and at the wrong time. Competition has actually been all but eliminated just where and when it is most important, particularly, in this Commonwealth where the *status quo* favors a “closed system.” Legislation that promotes a system of equitable medical charges and payments for all would promote competition and result in more economical and efficient medical care.

Turning to the proposed IBC/Highmark Blue Cross, Inc. merger, included with my testimony is information from two noted Health Economists, Dr. Lawton R. Burns, James Joo-Jin Kim, Professor of Health Care Systems and Management and Director of the Wharton Center for Health Management and Economics at the University of Pennsylvania and Stephen Foreman, Ph.D., J.D., M.P.A., Health Care Economist, Robert Morris University and formally Assistant Professor at Penn State University. Both believe that past mergers and the proposed merger will adversely affect health care competition within our

Commonwealth. On the other hand, Dr. Kenneth R. Melani, M.D., CEO of Highmark, Inc. , testified before Senator Spector’s Senate Judiciary Committee that the merged company “will achieve operating efficiencies – freeing resources to invest in programs and services that will benefit our group customers, individual customers, physicians, hospitals and the communities in which we operate.” In an effort to fairly present both positions, I have attached IBC and Highmark’s response to Dr. Burn’s Senate Judiciary Hearing testimony. Rather than restate the analysis and conclusions of these opposing positions, however, I would simply state that whether one agrees or disagrees with their stated positions, the proposed Highmark/IBC merger may be irrelevant if a transparency model is established.

**The Legislature Should Focus On
Comprehensive Quality Care That Is Efficient**

Providers should compete to be the best at resolving medical problems and patients should be free to seek out the best provider with an established record of effectively treating that patient’s unique medical condition. In the current environment, where patients’ treatments are determined by the networks they participate in, network providers are all but guaranteed the business - no matter what quality services delivered. To counter this situation, I suggest legislation, not unlike that enacted by the Pennsylvania Legislature several years ago to reform our Workers’ Compensation system, setting reimbursement rates at some percentage or multiple of the regional Medicare allowance for the

procedure/service in question. Again, this will go far to ensure competition regardless of whether or not the proposed Blues' merger is implemented.

Implementation of this proposed legislation would immediately increase competition across our Commonwealth by leveling the playing field. Legislation should also be enacted to allow non-profit Health Insurance Companies and self Insured Groups like business leagues and Health Funds wishing to provide health insurance to their members, full participation rights in this uniform medical reimbursement program. It would allow health plans/insurers to compete based on how efficiently they perform on an administrative level, while providing medical facilities and physicians fair compensation for their services. Undoubtedly, a uniform medical reimbursement program would remove healthcare dollars from the healthcare delivery system, but the dollars removed would be profits; not medical services. Competition would increase, efficiencies would increase, and in the process, the quality of healthcare services would improve.

Instead of allowing the major health insurers to use their oligopoly power to receive preferential pricing and profits, healthcare providers should be able to charge reasonable prices to all healthcare consumers. The present system unfortunately provides unjustified discounts to the largest insurers and unreasonable mark-ups to the smallest healthcare payers. In the process, it rewards the majors with profitable, yet unjustifiable discounts, which all the other purchasers of health services subsidize. That must end.

In summary, any new legislation should focus on:

- Ensuring fair and appropriate competition.**
- Rewarding comprehensive quality health care delivered in an efficient fashion.**

Thank you again for the opportunity to bring forth these issues and concerns.