UPMC’s Mission is to serve our communities by providing outstanding patient care and to shape tomorrow’s health system through clinical and technological innovation, research, and education. Within the comparatively short life of UPMC, this critical Mission has been advanced with levels of effectiveness and impact that probably are unsurpassed in the history of modern American medicine. Today, UPMC is widely recognized as one of the top academic medical centers in the world. The beneficiaries of UPMC’s success include the patients we serve, the communities in which we work and the health of human kind. Consider the following:

■ The hospitals, physicians and other health care professionals of UPMC now meet the needs of millions of patients annually. By any measure, UPMC has become the clear provider-of-choice for those living in the communities it serves. UPMC also has made Western Pennsylvania a destination-of-choice for patients from other locations around the world who seek medical care for complex conditions.

■ In partnership with the University of Pittsburgh, UPMC has pioneered new approaches to transplantation, heart disease, cancer, neurological diseases and injuries, orthopedic conditions, psychiatric disorders and other life-threatening conditions. This unique and critical partnership also has provided education and training for most of the region’s physicians, nurses and other healthcare professionals.

■ Nearly 60,000 people earn their livelihoods at UPMC, making it Pennsylvania’s largest non-governmental employer, and the spending by UPMC and its employees has been a critical factor in restoring and preserving the region’s economic health. The system’s total economic impact on the region is estimated to be nearly $22 billion annually, making it the principal driver of Western Pennsylvania’s new “meds and eds” economy. After the decline of the smokestack industries and the more recent Great Recession, UPMC buoyed the local economy and helped the region to avoid the devastating consequences suffered by other cities.

■ In the past fiscal year alone, UPMC also provided more than $622 million in community benefits, including charity care, uncompensated care from government programs for the poor, community health improvement programs and donations, funding for medical research, and education for tomorrow’s health care professionals. The vast majority of the care for the region’s underserved and economically disadvantaged population is provided by UPMC, while its $100 million commitment to The Pittsburgh Promise stands as an unprecedented example of philanthropic re-investment in the people of the City that has long been its principal home.

The fiduciary responsibility to pursue and protect that Mission is ultimately entrusted to UPMC’s Board of Directors, twenty-four unpaid volunteers representing a broad cross-section of the communities and constituencies it serves. Its Board
has ensured that UPMC provides innovative, high-quality, and cost-effective healthcare to the residents of Western Pennsylvania. It is a Board that also has been consistently attentive to risk – being mindful, in particular, of lessons from the recent history of healthcare in Western Pennsylvania, lessons that are telling but that, at least for some, seem to have been quickly, and perhaps conveniently, forgotten:

■ As the original Allegheny General Hospital, a highly respected Pittsburgh institution with a long and proud history, became the Allegheny Health Education and Research Foundation, its operations were jeopardized by a flawed business strategy, poor management decisions, and questionable oversight. The result was the largest bankruptcy in American healthcare history, a series of criminal prosecutions, the loss of tens of millions of Western Pennsylvania dollars and thousands of Western Pennsylvania jobs, and permanent damage to what had been the Allegheny General Hospital.

■ When the Board and management of the Western Pennsylvania Hospital assumed the role of “white knight” in saving what was left of the Allegheny General Hospital, their intentions almost certainly were noble. However, an objective look at the financial circumstances of these two institutions strongly suggested that West Penn lacked the strength to assume that responsibility and that the weight of Allegheny General inevitably would quickly pull West Penn, another institution with a long and proud history, into financial jeopardy, which it did.

■ Meanwhile Highmark repeatedly tried to support and subsidize the new West Penn Allegheny Health System, over time infusing hundreds of millions of dollars into it. As now is absolutely clear, these subsidies did not rescue West Penn Allegheny from the financial difficulties that were the product of its own management decisions. However, by distorting the competitive environment, those subsidies caused lasting damage to other regional hospitals. St. Francis Hospital, which had been in operation since 1861 and which had particularly distinguished itself as a provider of compassionate psychiatric care and mental health services, did not survive. Mercy Hospital, the city’s only remaining Catholic hospital, no longer could sustain itself and asked to become a part of UPMC under an arrangement that helped preserve its distinctive Catholic mission.

Throughout these tumultuous times, though regularly targeted by both Highmark and West Penn Allegheny, UPMC held fast to its mission, which the Board pursued with focus and foresight. A prime example of the Board’s stewardship was the creation, fifteen years ago, of the UPMC Health Plan, which over the years has transformed UPMC into an integrated health system. By design, integrated health systems create provider networks that compete on quality, cost and member satisfaction when compared to traditional insurers that instead offer broad networks less attuned to clinical innovation, service, and cost. At its founding, moreover, the UPMC Health Plan emerged as the first real insurance competitor in a market historically dominated by Highmark.

When the UPMC Health Plan was formed, numerous critics, including Highmark, publicly contended that this integrated model could not and would not work—that UPMC was destined to be “another AHERF.” But the Board’s integrated strategy has been repeatedly confirmed as UPMC has thrived while other respected medical
institutions in this region have struggled and sometimes failed. Indeed, nationally recognized experts today encourage providers to create financing arms, take on financial risk, and align internal incentives up and down their organizations—actions already taken by UPMC. These experts, supported by the new health reform legislation, now further promote vertical integration and vigorous competition as ways to limit the cost of healthcare and enhance value.

Given these trends, it was perhaps not surprising that two years ago Highmark reversed its longstanding condemnation of UPMC’s integrated model and announced its own plan to become an integrated health system by acquiring the financially troubled West Penn Allegheny Health System. Highmark’s expressed intention was, and has remained, to resurrect West Penn Allegheny as a competitor to UPMC and to put the full weight of its insurance monopoly behind this new competitor.

UPMC, consistent with its responsibilities to its patients and to the broader community, immediately advised the public of the impending expiration of the contracts allowing Highmark to include UPMC facilities and physicians in its network and specified that a renewal of those contracts would not be possible were Highmark to acquire West Penn Allegheny and reposition itself as a competing provider, both because it would put UPMC at risk and because it would undermine the very competition that should benefit the region, as a driver of even higher levels of quality and of lower cost. Then, as now, UPMC recognized the potential to move Western Pennsylvania from among the least competitive healthcare markets, with a dominant insurer and a dominant provider, to one of the most competitive, with two integrated health systems competing on the basis of quality, service, and cost, and at least three national insurers offering in-network access to both systems.

By mid-2012, with the end of the Highmark/UPMC contracts looming, Highmark and West Penn Allegheny had still not completed their proposed combination. At the Governor’s behest, UPMC and Highmark therefore entered into a Mediated Agreement that extended the contracts between them until December 31, 2014, specifically to “provide for sufficient and definite time for patients to make appropriate arrangements for their care and eliminate the need for governmental intervention” when the contracts expired. As one part of that agreement and consistent with its commitments to patients and community, UPMC agreed that after 2014 Highmark subscribers would continue to have in-network access to various unique facilities and services at UPMC, including Children’s Hospital, Western Psychiatric Institute and Clinic, certain oncology services not available at West Penn Allegheny, and two facilities that are essentially the sole providers of hospital services in their communities, UPMC Northwest Hospital and UPMC Bedford Memorial Hospital.

The Pennsylvania Insurance Department ultimately approved Highmark’s proposal to acquire West Penn Allegheny on April 29, 2013, an approval built on a Highmark plan that assumed no further contract extension with UPMC. Highmark and West Penn Allegheny closed their transaction that same day.

As Highmark, UPMC, and the community in general approach this newly competitive market for what is perhaps the most personal, sensitive, and important service of all—health care—no one can afford to ignore demographic or medical reality. Southwestern Pennsylvania, where all of West Penn Allegheny’s
facilities are located, has a significant surplus of hospital beds, the product of a stable or declining population combined with advances in medical care that have reduced the need for acute admissions. As a result, any effort to increase patient admissions at one hospital will succeed only at the expense of other hospitals—a reality the consultants retained by the Pennsylvania Insurance Department described as a “zero sum game.”

In the face of that reality, Highmark has put forward a business plan that requires it to increase admissions at West Penn Allegheny’s hospitals by 41,000 patients per year. As the St. Francis and Mercy experiences suggest, some of those patients could come from community hospitals. In dealing with that large number, however, Highmark has made no secret of where it intends to get the vast majority of those admissions: UPMC.

As to how it would shift tens of thousands of patients per year from the UPMC doctors and hospitals that have been historically—and overwhelmingly—preferred to West Penn Allegheny’s offerings, Highmark has presented two alternative plans. Highmark’s “Base Case,” as proposed to the Pennsylvania Insurance Department, assumes that it will have no contracts—commercial or Medicare—with UPMC after 2014 and that its subscribers will therefore not have the option of going to UPMC hospitals or physicians in network. According to Highmark, the vast majority of the “contestable volume” of patients in that Base Case will switch to West Penn Allegheny providers rather than change their insurer to keep UPMC in network. Whether or not Highmark’s Base Case assumptions are sound can only be determined in the competitive marketplace. However, it is important to note that this Base Case with no UPMC contract was accepted by the Insurance Department—with extensive conditions and monitoring to assure that Highmark meets the expectations it has created. Among those conditions is one requiring Highmark to seek Insurance Department approval before signing any contract that it might offer UPMC, to ensure that, should UPMC ever agree to such a contract, it would not impair the recovery of West Penn Allegheny or otherwise lessen competition among either insurers or providers.

In fact, Highmark’s alternative business plan assumes that any new contract with UPMC would, unlike the current contracts, permit Highmark to use economic incentives to “tier and steer” Highmark’s subscribers away from UPMC and into the West Penn Allegheny Health System. Highmark has given these contractual provisions the appealing, but misleading, name “consumer choice initiatives,” because as Highmark has already demonstrated any “choice” it might provide to its subscribers would be illusory.

In what would amount to a classic bait and switch, Highmark would lure employers and subscribers into new contracts or contract renewals with the illusion of in-network access to UPMC only to use tiers, co-pays, co-insurance, deductibles and the like to steer those subscribers over to West Penn Allegheny. While Highmark has said that it would tier and steer based on differences in “cost and quality,” even those pressures would undermine patient choice. Nor could UPMC ever rely on Highmark to gauge “cost and quality” fairly and objectively, particularly where Highmark’s announced intention is to drive an additional 41,000 patients every year away from UPMC and into West Penn Allegheny.

Highmark simply has no option but to force its subscribers toward West Penn Allegheny; over the

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last decade, those subscribers have overwhelmingly chosen UPMC when given an unfettered choice. That is why Highmark has outlined only two business plans supporting a rescue of West Penn Allegheny: its base plan in which its subscribers would have no in-network access to UPMC and therefore would have to use West Penn Allegheny, and its alternative plan, where its subscribers would be offered the illusion of access to UPMC only to be steered to West Penn Allegheny.

Clearly UPMC could not responsibly sign contracts giving Highmark the free use of anti-competitive weapons to harm UPMC. The diversion of 41,000 patients per year from UPMC’s system would be the equivalent, for example, of closing both UPMC Mercy and UPMC Shadyside, with the attendant loss of approximately 11,000 jobs. Nor could UPMC, as a committed healthcare provider, willingly allow Highmark to discourage patients from using the hospitals and physicians they overwhelmingly prefer. Indeed, Compass-Lexecon, the consultants retained by the Insurance Department, recognized that it would be “unreasonable” to assume that UPMC would enter into the contracts proposed by Highmark.

Were Highmark to divert tens of thousands of patients away from UPMC and into West Penn Allegheny, UPMC would be greatly diminished. It could no longer invest more than $250 million in annual support of cutting edge research, education and training at the University of Pittsburgh. Nor could it make commitments to initiatives like the Pittsburgh Promise, which is investing $100 million of UPMC funds in an unprecedented opportunity for economically challenged families to send their children to college and as an incentive for families to remain in Pittsburgh. It could no longer invest more than $500 million per year in capital projects creating facilities and jobs in Pittsburgh. It could no longer provide care to the vast majority of the underprivileged and underserved. If Highmark wants to inflict that kind of damage on one of the world’s best health systems and on the constituents and communities that it serves, it should have to do that by competing, integrated health system to integrated health system, without seeking to create yet another uncompetitive market by handicapping its chief competitor.

UPMC’s Board owes a fiduciary obligation to preserve and protect the charitable assets that have been entrusted to it and to ensure that those charitable assets are managed and deployed in pursuit of UPMC’s Mission. Highmark’s announced plan to steer tens of thousands of admissions away from UPMC’s hospitals in Southwestern Pennsylvania poses a direct, substantial threat to UPMC’s charitable assets, to its clinical and academic mission, to its role as the economic driver of the region, and to its ability to provide future benefits to the community. Highmark’s opportunity to deliver on that devastating plan would be greatly enhanced were it to secure contracts capturing UPMC’s hospitals and its physicians within its network after December 31, 2014, particularly if any such contracts allowed Highmark to impede its subscribers’ access to UPMC’s hospitals and steer them instead into its newly formed health network.

Any concerns, moreover, about continued access to the unique community assets managed by UPMC have already been addressed in the Mediated Agreement, which provides for Highmark subscribers to have in-network access to certain UPMC specialty hospitals, certain unique oncology services, certain “sole-provider” hospitals, certain services at non-UPMC facilities under joint ventures, and certain services provided by UPMC physicians...
at non-UPMC locations or facilities, even after the existing commercial contracts expire on December 31, 2014.

Meanwhile, enhanced competition in both the insurance market and the provider market positions Western Pennsylvania to maintain high quality and affordable healthcare. There will be at least five choices of insurance sponsors available to consumers and businesses, including the UPMC Health Plan, rated as having the highest quality and consumer satisfaction of commercial plans in western Pennsylvania and having at its core UPMC’s world class providers. Highmark, meanwhile, will offer plans centered on West Penn Allegheny and designed to entice patients away from UPMC. National insurers, including Aetna, Cigna, and United Healthcare, and others, already are offering and will continue to offer access to both UPMC providers and Highmark providers. Although the Pittsburgh market had long been a competitive outlier without either vibrant national carriers or consumers accustomed to shopping for less costly insurance alternatives, the region’s employers and consumers have more recently been the beneficiaries of a price war that will save them tens of millions of dollars on health insurance premiums.

Finally, eighteen months is a reasonable amount of time for Highmark and UPMC to negotiate and implement a transition plan that would allow everyone affected by this development to adapt to and make informed decisions about that transition. Numerous employers are already offering their employees insurance options that will include full, in-network access to UPMC after 2014; others will follow suit once it becomes clear that the current contracts will, in fact, expire. No further time should be wasted, however, in making that expiration clear and in moving forward with the appropriate transition.