UPMC LIFE CHANGING MEDICINE

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I am Diane Holder, Executive Vice President of UPMC, President of UPMC Insurance Services Division, and CEO of UPMC Health Plan.

I'd like to start by thanking you not only for the opportunity to speak before you today about House Bills 1621 and 1622, but also for your ongoing commitment to assure that Pennsylvanians continue to have meaningful health coverage and delivery options. As an individual who has worked in the healthcare industry for my entire career, I share your commitment to this goal both personally and professionally.

The UPMC Insurance Services Division was created 15 years ago to provide western Pennsylvanians with meaningful health coverage options. Before this time, more than two-thirds of western Pennsylvanians purchased coverage from a single carrier. UPMC's goal was to provide an alternative coverage model in which the provider and the payer worked collaboratively to offer a different value, a value that focused on improving the delivery of care and keeping the cost of care more affordable.

The UPMC Insurance Services Division includes the UPMC Health Plan, which offers both Commercial coverage, as well as Medicare Advantage Products and Children's Health Insurance; UPMC *for You*, which provides Medicaid Managed Care for members of the Health Choices program; the UPMC Special Needs Plan, which covers people who have both Medicaid and Medicare coverage; Community Care Behavioral Health, which offers behavioral health managed care products; and our WorkPartners services, which offer employer services such as Workers' Compensation and Disability, EAP and Health and Wellness products. Across all its products and services, the UPMC Insurance Services Division covers 2.3 million members. We serve over 10,000 employers and have a network of over 100 hospitals and over 10,000 physicians.

Before deciding to launch its insurance products, UPMC knew it would face stiff competition from the area's largest insurer — an insurer that, because of its sheer dominance, had amassed reserves that would make competition based on premium cost alone nearly impossible. UPMC leadership understood that the Health Plan, instead, had to offer something unique – something different. It had to provide its members with quality and service that were second to none.

Over the past 15 years, we are very proud of having accomplished these goals. In 2013, UPMC Health Plan was ranked by *U.S. News & World Report* as the No. 1 commercial HMO and the No. 1 PPO in Pennsylvania. UPMC's behavioral managed care organization is ranked No. 1 in quality in the Commonwealth and recently received an award for excellence from the American Psychiatric Association. For nine of the last 10 years, UPMC *for You*, our Medicaid MCO, has been ranked No. 1 in quality among the seven plans operating in Pennsylvania, and is one of the most cost effective. Our Children's Health Insurance Plan (CHIP) was designated

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as one of the most cost effective in the state and enjoys the highest member retention. Our Medicare Advantage Plans enjoy four-star ratings that are based on quality outcomes, and last year our Medicare Advantage Plan was designated as the best value in the region by Health Matrix Research, Inc.

As part of an integrated delivery system, UPMC Health Plan has been recognized for its "high touch" customer service. Last year, because of the way we service our members, we were awarded "International Call Center of the Year" by the International Quality and Productivity Center. We were proud to join the list of other excellent companies that were previously awarded this distinction, including American Express and Wells Fargo. We have also ranked highest in J.D. Power's commercial customer satisfaction in the Commonwealth. In fact, Geisinger, the other well-established integrated delivery system in Pennsylvania, and UPMC often vie for No. 1 and No. 2 in this rating.

In every J.D. Power region across the country you will find that integrated delivery systems such as Kaiser Permanente, UPMC, and Geisinger are over-represented as No. 1 in customer satisfaction. Why is this? It is, in part, because we compete with larger companies that rely upon traditional insurance practices and that may not have the ability to integrate as closely as we do with the doctors and hospitals that provide the clinical care. We have worked diligently to be innovative and to avoid putting our members and patients in the middle between a health plan's "rules" for accessing services or medications and their doctors' goals of providing good and necessary care.

One of the first things we did when we became both a payer and provider was to have our hospital leadership, doctors, and insurance experts sit together to find ways to take the confusion and inefficiency out of the authorization process. Our doctors and our health plans build protocols together so that the most efficient care is provided. We have a joint formulary team, which includes physician experts who, with a sensitivity to both quality and cost, assist in determining which medication protocols are best. In fact, we were the first health plan in the state to eliminate Oxycontin, a highly addictive and abused drug, from our formulary. However, in so doing, we worked closely with our cancer and pain management physicians to assist those members who, despite the risks, needed this long-acting narcotic and simultaneously offered other medication choices that led to less addiction and less abuse. Programs like these allow us to save employer, taxpayer, and consumer dollars and improve quality outcomes.

In addition to this type of innovation, we were the first health plan in our market to launch Patient Centered Medical Homes, Specialty Medical Homes, Rural Health Homes for People with Serious Mental Illness, Doula Programs for high-risk pregnant women and many more creative services, all because our DNA is consumer-centered care.

But though UPMC Health Plan is a great offering and many individuals and employers choose us, we are not the only viable health insurance competitor in western Pennsylvania. The coverage options available to consumers have become even more robust since the UPMC delivery system negotiated participation agreements with Aetna, Cigna, and United Healthcare. All three of these companies have demonstrated a clear commitment to serve Pennsylvania consumers, and we at the Health Plan welcome these respected competitors. Competition makes us all better, and western Pennsylvanians have simply never had more or better coverage options than they do today.

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What has this increased competition and choice meant for consumers? First, as a general principle, regions with competing insurers often have lower premiums. Premium increases across the country have recently averaged about 7.5 percent annually. Last year western Pennsylvania saw increases averaging significantly less. In a recent article by Kaiser Health News, Joel Ario, Pennsylvania's own former Insurance Commissioner, noted "there is something of a price war right now" in Pittsburgh.[1] He described this as "the ideal situation, with competing insurers and competing hospital systems." Employers are taking notice of these competitive options and are, for the first time in decades, offering new coverage options to their employees. Clearly the ideal situation noted by Mr. Ario is benefiting employers, is benefiting consumers, and ultimately will benefit the representatives who foster an environment in which such competition continues to be possible.

This proposed legislation does not create such an environment — to the contrary, it places it in peril. Taking any action that would interfere with the competition in western Pennsylvania is not a goal toward which anyone should aspire. It is especially ill-advised given that the proposed legislation is founded upon unproven, unsubstantiated premises, including that hospitals and physician practices that also operate as "integrated delivery networks" (IDNs) – meaning providers that also have insurance arms – have "little incentive to improve the quality of care delivered."

As I just mentioned moments ago, we at the Health Plan have spent endless energy and resources nurturing superior quality, integration, and excellence. Similarly, Geisinger, the only other long-standing IDN that would be subject to this proposed legislation, is also routinely recognized nationally for its commitment to quality and to integration.

Does this mean that we think there is no room for improvement? Absolutely not. We believe there are opportunities to continue to move care to the outpatient setting; to engage consumers in taking a more active role in health care decisions by arming them with better information and more transparent cost and quality data; to continue to improve the efforts to coordinate care for people with serious and chronic conditions; and to help people who are terminally ill find the best possible palliative and supportive care and services at the end of life.

Across the country, Accountable Care Organizations (ACOs), which align the provider and the payer, are growing. To date there are over 400 official ACOs nationwide. In fact, many health systems, including some of the most prestigious health systems across the nation, are looking to create their own ACOs through integrated delivery networks, IDNs fashioned after and similar to that of UPMC and Geisinger — the very IDNs that are the target of this proposed legislation.

In a June survey of more than 100 hospitals and health systems across the country, 34 percent responded that they already own health plans. Another 21 percent said they plan to launch a health insurance plan by 2018.[2] Spurred by healthcare reform, the creation of health insurance exchanges and marketplaces, and a shift to population health management, these systems are taking these steps in an effort to deliver a better product to the market.

1 http://www.kaiserhealthnews.org/Stories/2013/September/30/premium-variation-intrastate-obamacare-marketplaces-exchanges.aspx?p=1

2 http://www.healthleadersmedia.com/print/HEP-295415/1-in-5-Health-Systems-to-Become-Payers-by-2018

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As such, at a time when the rest of the nation moves to develop these types of integrated entities, Pennsylvania is the only state considering implementing legislation that would dampen the development of any new IDNs in Pennsylvania, and dampen the innovation and value that accompany them. Across the entire nation, exactly two long-standing IDNs — Geisinger and UPMC — and one new IDN would be subject to such crippling legislation; nowhere else in the country does legislation like the proposed legislation exist today.

And why not? Because IDNs are not broken. They do not result in lower quality or less innovation; in fact, the contrary is true. Likewise, there is no evidence, as suggested in the proposed legislation, that they exert additional market dominance by setting rates for both payment and reimbursement. The bills' sponsors point to no support for this proposition, because there is no support for this position. What is supported by documentable evidence – including evidence right here at home – is that insurer competition, the kind of competition we are enjoying for the first time in western Pennsylvania, results in lower costs and increased quality.

Conversely, attempts to use legislation, regulation, or government intervention to directly control costs have failed to produce the intended results. Over the past few decades, the dozen or so states that have considered some form of rate or other regulation designed to address healthcare costs have either already abandoned these approaches or, as is the case in Maryland, will do so soon. Maryland has extensively regulated hospital rates for over 40 years, but is now re-evaluating its approach in the face of unsustainable cost growth.

Why? Because merely regulating costs is not effective. In fact, under such stringent government regulation, the cost of inpatient stays in Maryland grew to be among the highest in the nation. Maryland will now replace its regulatory approach in favor of innovation focused upon population-based health management. It is this type of innovation that adds value. New and creative payment methodologies are sweeping across the country. Fee-for-service or "pay by the widget" methodologies are quickly being replaced.

This proposed legislation flies in the face of these creative payment and delivery solutions and will move Pennsylvania – a Commonwealth that has long been a leader in the healthcare arena – in a direction opposite that of the rest of the nation. Forced contracting between payers and providers is simply not the answer. Even the most basic contracts between insurers and providers involve the negotiation of countless variables – certainly not rates alone. These agreements are detailed and are complicated. As such, even if a forced contract – a forced marriage if you will – were possible between an unwilling provider and payer, it would certainly be limited to obsolete methodologies. No arbitrator could ever effectively use the proposed shotgun approach to craft an agreement conditioned upon novel and innovative payment such as bundling or pay-for-performance; you cannot simply mandate effective collaboration, innovation, or common movement toward a shared goal.

As the CEO of UPMC Health Plan – a spirited competitor of other insurers in western Pennsylvania – I understand that in a free and competitive market, there are no guarantees of business success; not infrequently, there are winners and losers. Deciding who wins and who loses, however, should be done by well– and fully informed consumers. It is very difficult to replace the invisible hand of competition with complicated and arbitrary bureaucracy.

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Let's be frank, there are no underdogs at issue here. No entity that would be subject to this legislation needs propping up by the government to survive competition; no entity needs saving. Those who need saving are consumers – consumers who deserve choice, who deserve innovation, who deserve nothing less than cutting edge. What I am asking from you is to allow the market alone to fashion that choice, to foster that innovation, and to allow Pennsylvania to remain on the cutting edge of healthcare coverage and delivery.

In conclusion, I genuinely believe that, when all is said and done, and despite our differences at times, everyone here today wants what is best for Pennsylvania and its residents. This proposed legislation is not good for either. It will have long–term deleterious effects on competition, on health care quality, on innovation, and on value. It will put Pennsylvania on a trajectory at odds with that being pursued by other states, by other health systems, and by other entities across the nation. I respectfully ask that you let the market decide – let consumers choose. Thank you for any consideration you will give to my comments today.