

The Blue “Divorce”...Good for You???

The first in an occasional series of articles from an interested observer - PHC4

Recent articles in the *New York Times* (May 25) and *The Journal of the American Medical Association* (May 23-30 issue) have suggested that managed care is dying. In the last decade, the health insurance marketplace has been in turmoil, with health systems consolidating and price pressures escalating. Commercial revenues are up, and PHC4's recently issued *Financial Analysis 2000* demonstrates that hospitals are now regaining the driver's seat.

Events in Central Pennsylvania offer support to the view that the marketplace is changing. Central Pennsylvania's health care has been dominated by a partnership between Capital Blue Cross (CBC) and Highmark/Pennsylvania Blue Shield (PBS), but recently these insurers have announced they will be ending their partnership. Each company apparently plans to offer its own package of health insurance products.

The proposed “divorce” between CBC and PBS is likely to result in major health insurance changes. Purchasers in central Pennsylvania will have to make new decisions regarding healthcare coverage. PHC4 would like to assist you in those actions. This paper, written primarily for health care purchasers, outlines what is known to date about this proposed divorce. We also invite you to share your questions and concerns.

CBC is one of four regional Blue Cross entities in the Commonwealth. It has customers across Central PA, in

the Susquehanna Valley and the Lehigh Valley. This market provides CBC with about 1.45 million customers in Central PA.

Highmark was created in 1996 by consolidating Blue Cross of Western Pennsylvania and PBS. The resulting company is among the ten largest health insurers in the United States, with a substantial market share, including about two-thirds of all Pennsylvania residents in some form of its insurance products.

CBC is a non-profit company (no shareholders, owners or investors) that typically contracts with hospitals, while PBS is a non-profit that historically contracts with doctors and other medical service providers. CBC has contracts with 29 hospitals and dozens of smaller medical facilities. PBS has contracts with 28,000 physicians in the state.

Last year CBC had revenues of \$1.3 billion and reserves of \$587 million. Highmark had revenues of \$9 billion and reserves of \$2.2 billion. Reserves are assets that insurance companies must maintain to assure they have sufficient funds to pay all claims.

Historically, the Blue Cross and Blue Shield Plans in Pennsylvania have offered health care benefits worth 90 cents of every dollar they receive in premiums. About 10 cents of your premium dollar is used to cover administrative expenses such as salaries, claims

processing, and other business expenses. These numbers compare favorably to industry averages, but as the health insurance market changes, purchasers need to know how cost and quality of care will change.

The merger of Western Blue Cross and PBS into Highmark was unusual for our state, but not unusual nationwide. Most state Blue Cross and Blue Shield plans in the country offer coverage together; but there are other models. For example, in Kansas, Anthem (a “national” Blue Cross company) is acquiring both Kansas Blue Cross and Blue Shield. Empire Blue Cross in New York is planning to go private, and has offered one billion dollars to hospitals and non-profit health care programs as an inducement to remove regulatory objections to the privatization. In Pennsylvania, both CBC and PBS agree that CBC plans to change the historic relationship between the two firms. There is little else that the two partners seem to agree upon right now.

CBC says it explored many alternatives while considering a “transformation” of its business, and decided to become an “integrated” business, offering customers a single source of access to — and payments for — both hospital and physician visits. In press releases CBC has talked about this new integrated business as a for-profit company, a side-by-side partner with the existing non-profit CBC business.

PBS says that CBC is “attempting to duplicate services PBS has successfully provided for decades.” PBS says it has sought a “merger” of the two old allies, but that CBC plans to become a competitor instead. In response, PBS says it too will be forced to offer fully integrated services. PBS says it will compete aggressively if forced to compete.

CBC says it hopes to have new products in the field by mid-year 2002. PBS says it hopes to be running its new company as close to January 1, 2002 as possible.

Health care purchasers already have a waiting room full of questions about these developments. There are few real answers yet. What is the timetable for the divorce? What happens to our coverage? Will this new level of competition in Pennsylvania lower premium costs? Must my members or employees see a certain doctor? Here are some other questions:

- How will Blue Cross and Highmark products change?
- How will cost and quality of service change?
- How will the two firms’ staffs be affected? Will staff of CBC and/or PBS be reduced?
- How will purchaser services be affected?
- What questions should purchasers ask CBC or PBS during the transition process? (Access, financing, reserving, duplication of service, legal or technical areas)
- Will purchasers participate in the regulatory process?
- How will purchasers and their employees be affected during the transition?
- How are political and community leaders responding?
- What are the implications for Keystone Health Plan Central (Highmark and CBC each own 50 percent of this HMO) and HealthOne, CBC’s present point-of-service plan?

Future articles on this topic will offer updates on the situation, the competitive marketplace, and expected implications for purchasers and others. If you have questions or suggestions for our research, or for the regulatory review process, contact us. We are here to serve you.

PA Health Care Cost Containment Council

Marc P. Volavka, Executive Director

Contact: Michael L. Berney

Manager, Purchaser and Community Relations

225 Market Street, Suite 400 - Harrisburg, PA 17101

Phone: 717-232-6787 X117 Fax: 717-232-3821

Email: mberney@phc4.org