

Competition would be cut by health-insurance merger, critics say

By Jane M. Von Bergen

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Competition among health insurers in Pennsylvania would be cut if the the state's two largest insurers were allowed to merge, witnesses said at today's public hearing on the proposed consolidation of Independence Blue Cross and Highmark Inc.

That would decrease the bargaining power of doctors and hospitals for reimbursement, while not necessarily producing lower premiums or more coverage for the uninsured, they told Pennsylvania Sens. Arlen Specter and Robert Casey and Gov. Rendell.

"Econometric evidence shows that in the managed care field, an increase in the number of competitors is associated with lower health plan costs and premiums; conversely, a decrease in the number of competitors is associated with increases in plan costs and premiums," Lawton R. Burns testified.

Burns is a Wharton professor of health care management and was one in a panel at the hearing at the National Constitution Center, which included a representative from the Pennsylvania Medical Society, the president of a coalition that manages 91 union health plans, the leader of a senior citizens advocacy group and the chief executive of the Temple University Hospital system.

The Blues' top two executives defended the merger.

"I am convinced that this proposed combination will not reduce competition," said Independence chief executive, Joseph A. Frick, who would become second-in-command in the combined company.

"We are not reducing competition because there is no competition between us," he said. Indeed, the main customer base of Philadelphia-based IBC and Pittsburgh-based Highmark do not overlap.

But, he said, the companies face intense competition from large publicly traded firms such as Aetna Inc. and UnitedHealth Group, which are among the nation's largest.

"These are not small mom and pop insurance companies whom we would overshadow," he said. "All have access to capital to buy companies and capabilities."

Specter (R. Pa.) arranged the hearings at the National Constitution Center, telling reporters that "this is a big, big matter for Pennsylvania with very important anti-trust implications and we want to take a close,

close look at it."

At one point during the hearing, Specter asked Dr. Kenneth Melani, Highmark's chief executive, and the top officer of the proposed company pointed questions about his annual compensation, which, last year, topped \$3.2 million and included a \$2 million bonus.

Melani reddened and responded that his compensation amounted to less than 10 cents a year for Highmark's 28 million subscribers, most of whom are from other states. There are 4.8 million Highmark subscribers in Pennsylvania, he said.

After the hearing, Melani said that about 1,000 jobs would have to be reconfigured following the merger. Most of those would be lost by attrition, but would be regained through anticipated growth, he said.

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