



WILCOX & FETZER LTD.

In The Matter Of:

**Before the Insurance Commissioner of the
State of Delaware**

Proposed Affiliation of BCBSD, Inc with Highmark Inc

Docket # 1509-10

May 17, 2011

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BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF DELAWARE

In Re:)
)
THE PROPOSED AFFILIATION OF) Docket No. 1509-10
BCBSD, INC., DOING BUSINESS)
AS BLUE CROSS BLUE SHIELD)
OF DELAWARE, WITH HIGHMARK)
INC.)

TRANSCRIPT OF PUBLIC INFORMATION SESSION

Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904
May 17, 2011
6:30 p.m.

HEARD BEFORE: GENE REED, Deputy Insurance
Commissioner

APPEARANCES:

- MICHAEL HOUGHTON, ESQ. - Counsel to the
Department of Insurance
- LINDA SIZEMORE - Department of Insurance
- JOHN TINSLEY - Department of Insurance
- MARTIN ALDERSON SMITH - The Blackstone Group
- LORIE HARRISON - Department of Insurance
- TIMOTHY J. CONSTANTINE - BCBS Delaware
- MICHAEL G. WARFEL - Highmark Inc.

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1 DEPUTY COMMISSIONER REED: Good
2 evening. We're going to go ahead and get
3 started. Welcome to the May 17th Delaware
4 Insurance Department's public information session
5 on the proposed affiliation between Blue Cross
6 Blue Shield of Delaware and Highmark.

7 My name is Gene Reed. I am the
8 Deputy Insurance Commissioner of the State of
9 Delaware. The final adjudicator in this matter
10 is the Commissioner, Karen Weldin Stewart, who
11 will make the ultimate decision to approve or
12 disapprove the proposed affiliation.

13 To my immediate right is John
14 Tinsley, Special Deputy for Examination. And to
15 his right, Linda Sizemore, Director of Company
16 Regulation.

17 To my left is Mike Houghton, counsel
18 to the Delaware Department of Insurance, and
19 Martin Alderson Smith, financial advisor to the
20 Delaware Department of Insurance.

21 Blue Cross Blue Shield of Delaware,
22 which we will call BCBSD, and Highmark, submitted
23 a filing pursuant to the requirements of Chapter
24 50 of Title 18, the Delaware Insurance Company

1 Registration Act, and the Department's
2 administrative regulation pertaining to the
3 registration of insurance holding companies.

4 The Department has been examining
5 and reviewing the filing, and will continue to do
6 so in the coming weeks and months. The purpose
7 of today's session is not to reach a decision on
8 the proposed affiliation. The purpose of today's
9 session is for the Department of Insurance to
10 receive comments from the public to aid the
11 Department in ultimately reaching a decision on
12 the proposed affiliation.

13 In reaching its decision, the
14 Department will pay particular attention to the
15 public's comments about the proposed affiliation,
16 including the comments presented here tonight.

17 The entire record concerning the
18 proposed affiliation, including the transcript of
19 tonight's session, will be reviewed by the
20 Department before the Department reaches any
21 final conclusions.

22 The publicly-available portion of
23 the record has been and will continue to be
24 available on the Department's internet website

1 and at the Department's offices in Dover and
2 Wilmington.

3 If you do not have internet access,
4 you may inspect the files at the Department's
5 offices and request copies. You may also submit
6 a request for copies of a particular document by
7 fax or e-mail.

8 In addition, there is an index of
9 all the documents which are contained in the
10 public files. Copies of the public file index
11 are available for inspection in the back of the
12 room. The public file index is also available on
13 the Department's website, at
14 www.delawareinsurance.gov.

15 Given the significance of this
16 proposed affiliation to the Delaware public, and
17 as is common for such significant transactions,
18 the Department has hired outside legal advisors,
19 the law firm of Morris, Nichols, Arsht & Tunnell,
20 LLP, and outside financial advisors, the advisory
21 firm the Blackstone Group.

22 Mike Houghton of Morris Nichols will
23 now introduce himself, and then Martin Alderson
24 Smith of Blackstone will introduce himself.

1 MR. HOUGHTON: Thank you, Deputy
2 Commissioner. My name is Mike Houghton. I am
3 special counsel to the Department of Insurance,
4 and a partner at the Wilmington law firm of
5 Morris, Nichols, Arsht & Tunnell. I'd like to
6 welcome everyone here this evening.

7 Morris Nichols is a Delaware law
8 firm in Wilmington. We have previously
9 represented the Department of Insurance on
10 applications of the same type as that proposed by
11 this affiliation between Blue Cross Blue Shield
12 and Highmark.

13 Our job is to assist the Department
14 with its review, including by providing legal
15 advice to the Department about the substantive
16 and procedural aspects of the review. We will
17 also be involved in the public hearing before the
18 hearing officer appointed in this matter, the
19 Honorable Battle Robinson.

20 I'll discuss the public hearing in a
21 moment. First I want to put this public
22 information session in perspective relative to
23 the other aspects of review involved in this
24 proposed affiliation.

1 As the Deputy Commissioner has
2 stated, the purpose of today's session is not to
3 reach a final decision on the proposed
4 affiliation. The Department is in the midst of
5 its review and analysis of the proposed
6 affiliation, and will continue its review and
7 analysis until it is satisfied that it can reach
8 a decision regarding the proposed affiliation,
9 including whether any additional conditions or
10 additional requirements will be placed on the
11 applicants by the Department.

12 There are certain criteria that are
13 set forth in the Delaware Insurance Code that
14 provide the basis for the Department's review of
15 the proposed affiliation. They are:

16 A, whether BCBSD will be able to
17 satisfy the requirements for the issuance of a
18 license to write the lines of insurance for which
19 it presently is licensed.

20 B, whether the effect of the
21 proposed affiliation would be substantially to
22 lessen competition in insurance in Delaware, or
23 tend to create a monopoly therein.

24 C, whether Highmark's financial

1 condition is such as might jeopardize the
2 financial stability of the insurer or prejudice
3 the interest of its policyholders.

4 D, whether the plans or proposals
5 which Highmark has for BCBSD to make any material
6 changes in its business or corporate structure or
7 management are unfair and unreasonable to
8 policyholders of BCBSD, and not in the public
9 interest.

10 E, the competence, experience,
11 integrity of those persons who would control the
12 operation of the affiliated entity are such that
13 it would not be in the interest of policyholders
14 of the insurer and of the public to permit the
15 proposed affiliation.

16 Or F, whether the proposed
17 affiliation is likely to be hazardous or
18 prejudicial to the insurance-buying public.

19 After the Department is finished
20 with its review and analysis, there will be a
21 public hearing held before the Honorable Battle
22 Robinson, who is the Department of Insurance
23 hearing officer for this proposed affiliation.

24 The public hearing will be held at a

1 time to be determined. The parties presenting
2 testimony and evidence at the public hearing
3 before Hearing Officer Robinson will include the
4 Department of Insurance, the applicants, BCBSD
5 and Highmark, as well as the Department of
6 Justice, which is a party to this proceeding.
7 And the Delaware Department of Justice does have
8 representatives present tonight at this hearing,
9 at this public information session.

10 At the public hearing, which will be
11 held, as I noted, at a time to be determined,
12 Judge Robinson will listen to testimony, will
13 review the documentary evidence, and
14 subsequently, will issue a decision on the
15 proposed affiliation.

16 The Commissioner will then review
17 Judge Robinson's decision, and then give the
18 ultimate approval or disapproval of the proposed
19 affiliation.

20 This is a description of Morris
21 Nichols' role, and where the Department is in the
22 process of its review. And with that, I'll turn
23 it over to my friend Martin.

24 MR. ALDERSON: Thank you very much

1 indeed, Mike. Good evening, ladies and
2 gentlemen. My name is Martin Alderson Smith.
3 I'm employed by the Blackstone Group, which is a
4 leading investment banking firm, primarily
5 engaged in financial advisory services and in
6 principal investments. I work in Blackstone's
7 corporate advisory services group, and my title
8 is senior managing director.

9 Blackstone has been retained by the
10 Delaware Insurance Department to conduct an
11 independent review of specific financial aspects
12 of the proposed affiliation between Blue Cross
13 Blue Shield of Delaware and Highmark.

14 Blackstone's work will be based on
15 all the information provided to the Department,
16 and will include reviewing financial and other
17 information submitted by the applicants, talking
18 with various market participants, including
19 providers, competitors, clients, and brokers,
20 assessing the potential impact on competition in
21 the state of Delaware, and reviewing any public
22 comments received by the Department.

23 This information includes all
24 information provided by both BCBSD and by

1 Highmark, as well as any public comments
2 submitted to the Department. Blackstone will
3 ultimately provide a report for use by the
4 Department in connection with the Department's
5 review and analysis.

6 Blackstone has significant
7 experience advising State insurance regulators on
8 various life and health insurance transactions.
9 In some of those instances, Blackstone has
10 recommended approving the proposed transaction.
11 In other instances, Blackstone has recommended
12 denying the proposed transaction.

13 Thank you again for your attendance
14 this evening. We look forward to your comments.
15 And now I'll turn it over to the Deputy
16 Commissioner.

17 DEPUTY COMMISSIONER REED: Thank
18 you, Mike and Martin. Today's session, as you
19 can see, is being transcribed by a court
20 reporter. The Department will make a copy of the
21 transcript available on its internet website.
22 You may download a copy of the transcript from
23 the Department's website.

24 If you do not have internet access,

1 you may view the transcript at the Department's
2 offices in Dover and Wilmington. Please call to
3 schedule an appointment before visiting the
4 Department's offices. You may also request a
5 copy of the transcript by fax or by e-mail.

6 As explained earlier, the purpose of
7 this evening's session is to provide a public
8 forum for anyone to give information and
9 comments, to ask questions about the proposed
10 affiliation between Blue Cross Blue Shield of
11 Delaware and Highmark.

12 Please address your comments to this
13 topic only. We ask that you please be as concise
14 as possible. If you are speaking, we ask that
15 you include your name on the list of speakers
16 that is available at the registration table
17 within the first 30 minutes of the session.

18 I hope you have all signed up, and
19 have already indicated that you wish to speak.
20 If you have not yet signed in or indicated that
21 you wish to speak, I ask that you please go to
22 the registration table and sign in at this time.

23 We ask that you also indicate if you
24 are speaking on your own behalf, if you are

1 speaking in any type of representative capacity,
2 and what your relationship, if any, to Blue Cross
3 Blue Shield of Delaware or Highmark is. For
4 example, if you are a policyholder or subscriber
5 of Blue Cross Blue Shield of Delaware or
6 Highmark.

7 Because of the informal nature of
8 today's session, there will be no sworn
9 testimony. Cross-examination or other
10 questioning of speakers or other representatives
11 of the party will not be permitted.

12 However, you may pose questions to
13 the applicants during your oral comments, or in
14 writing on the 5 by 7 cards available at the
15 registration table. Please pass the cards to the
16 end of the row, and they will be collected during
17 the breaks and at the conclusion of this
18 evening's session.

19 Following today's session, the
20 Department will require Blue Cross Blue Shield of
21 Delaware and Highmark to respond in writing to
22 all questions raised by the Department and the
23 public during the session, and will make the
24 responses available on its internet website at

1 www.delawareinsurance.gov.

2 Please limit your remarks to five
3 minutes. Once all speakers have given their
4 comments, the Department will allow speakers to
5 present additional comments. If your remarks
6 cannot be fully presented in your initial
7 five-minute time slot, if we have time, you may
8 be able to present further remarks at the end of
9 this evening's session.

10 Before the public comment session
11 begins, both Blue Cross Blue Shield of Delaware
12 and Highmark have sent representatives to
13 contribute to this evening's public information
14 session.

15 Timothy Constantine of Blue Cross
16 Blue Shield of Delaware, chief executive officer,
17 is here representing Blue Cross Blue Shield of
18 Delaware. And Michael Warfel, vice president of
19 government affairs for Highmark, is here
20 representing Highmark.

21 Both Mr. Constantine and Mr. Warfel
22 will be making statements this evening. Their
23 statements are intended to give an overview of
24 the transaction, as well as to provide rationale

1 from their respective organizations and
2 stockholders, and to preface the public comment
3 session.

4 Mr. Constantine and Mr. Warfel will
5 speak for approximately 15 minutes each. Their
6 statements will be recorded by the court
7 reporter, and will be posted on the Department's
8 website.

9 Neither Mr. Constantine or
10 Mr. Warfel will make statements beyond these
11 initial remarks, and they will not give verbal
12 responses to individuals during the public
13 comment session. Responses to individual
14 statements and questions from the public will be
15 given in written form and posted on the
16 Department's website.

17 Mr. Constantine will be speaking
18 first, followed by Mr. Warfel. So, we'll begin.

19 MR. CONSTANTINE: Good evening, and
20 welcome, everybody. Thank you, Deputy
21 Commissioner Reed. My name is Tim Constantine,
22 and I'm president and chief executive officer of
23 Blue Cross Blue Shield of Delaware. With me
24 tonight is Mike Warfel, the vice president of

1 government affairs of Highmark.

2 We welcome the opportunity to
3 discuss why this partnership between Blue Cross
4 Blue Shield of Delaware and Highmark is good for
5 Delaware, how it will benefit our subscribers,
6 the communities in which we operate, and the
7 people of Delaware.

8 For the sake of simplicity, Mike and
9 I will use the name Blue Cross during our
10 presentation to mean Blue Cross Blue Shield of
11 Delaware.

12 We recognize that these public
13 information sessions are one stage of a
14 comprehensive review process by the Delaware
15 Insurance Department, and we believe that our
16 presentation today, combined with the large
17 volume of information we have already submitted
18 to the Department, will clearly demonstrate that
19 this transaction is in Delaware's best interests.

20 Tonight we will cover a number of
21 topics, focusing on how the proposed transaction
22 will benefit the people of Delaware. We will
23 discuss our companies, their missions, and the
24 forces in the healthcare industry that are

1 driving change.

2 We will explain why Blue Cross at
3 this moment needs a strong partner to maintain
4 its strong Delaware presence. And I will also
5 talk about why Highmark is the right partner for
6 us.

7 As this review process moves
8 forward, we look forward to hearing from many
9 Delawareans, including those from local
10 businesses, civic and community organizations,
11 consumers, and healthcare providers.

12 To set the stage for my comments, I
13 would like to turn the discussion over to Mike.

14 MR. WARFEL: Thank you, Tim, and
15 good evening, everyone. As already stated, I'm
16 Mike Warfel, Highmark's vice president of
17 government affairs.

18 One reason we're here tonight is to
19 discuss the sea of changes taking place in our
20 healthcare system nationally and locally, and how
21 these changes create a need for this alliance.

22 Before doing that, I'd like to tell
23 you about Highmark. We have a very proud
24 tradition. For nearly 75 years, we've operated

1 as a not-for-profit corporation with a
2 long-standing commitment to the communities in
3 Pennsylvania, and more recently, West Virginia.

4 As part of our long-standing
5 mission, we have provide insurance programs to
6 every segment of the population. We've also
7 subsidized many of these insurance programs to
8 hold down the cost of health insurance for those
9 most in need, including seniors, children, and
10 those with limited economic means who don't
11 qualify for government programs and don't have
12 health insurance through an employer.

13 In addition to developing and
14 supporting these insurance programs, we have
15 provided a tremendous amount of support to the
16 community through grants and other forms of
17 giving. These monies are primarily used by
18 community health and human services organizations
19 to help address pressing human needs, including
20 free health, dental, and vision screenings for
21 those in need, childhood obesity, and
22 immunization clinics.

23 In 2010, we contributed \$175 million
24 for programs in support of our corporate mission.

1 Here are some examples that we take great pride
2 in. Highmark has created and continues to carry
3 out many programs to make a difference in the
4 lives of children and their families.

5 In 1985, Highmark's predecessor
6 companies, Blue Cross of Western Pennsylvania and
7 Pennsylvania Blue Shield, launched the Caring
8 Program for Children, to provide primary
9 healthcare benefits to children of unemployed and
10 working poor families.

11 The government-sponsored Children's
12 Health Insurance Program, widely known as CHIP,
13 was modeled after the Caring Program that was
14 developed in Pennsylvania.

15 In addition, during the past five
16 years, we contributed \$100 million to hundreds of
17 schools and community organizations to address
18 five critical children's health issues,
19 including: Nutrition, physical activity,
20 grieving, self-esteem, and bullying, called
21 Highmark Healthy High Five. This program has
22 helped to promote life long healthy habits in
23 children ages 6 to 18.

24 To fully quantify Highmark's

1 community commitment, we have contributed nearly
2 \$900 million for community-related activities
3 from 2005 through the end of last year.

4 Improving the health and wellness of
5 people in our community is one important part of
6 our heritage. We also have a tradition of
7 supporting the economy of local communities and
8 states that we serve, and where our employees
9 live and work.

10 Our presence generates billions of
11 dollars for the economies of Pennsylvania and
12 West Virginia. For example, we buy most of our
13 goods and services from local companies. By
14 doing so, we support and help create additional
15 jobs in the community, and help boost local and
16 State revenues.

17 Our role as an economic engine has
18 helped spur job growth. Since 1996, as our
19 business has grown, we have added nearly 10,000
20 new jobs. We now have nearly 20,000 employees.

21 And although we are a not-for-profit
22 company, we also pay taxes. From 2005 through
23 the end of last year, Highmark paid more than \$1
24 billion in Federal, State, and local taxes,

1 including property taxes.

2 So, as you can see, we have a long
3 history centered on making our communities
4 better, and we are committed to maintaining that
5 focus.

6 We also want to work closely with
7 other Blue Cross and Blue Shield companies, like
8 Blue Cross here in Delaware, that share certain
9 core values: Remaining a not-for-profit
10 corporation, with a commitment to meeting the
11 healthcare needs and supporting the economy of
12 the local communities. This is one reason why we
13 believe this affiliation is a good fit for both
14 Blue Cross and Highmark, as well as the state of
15 Delaware.

16 But this partnership is not about
17 yesterday or today. It's really about the
18 future. It's about how Highmark and Blue Cross
19 can operate effectively in the future, while
20 benefitting Blue Cross employees, members,
21 healthcare providers, and the people of Delaware.

22 To sustain our proud past well into
23 the future, Highmark and Blue Cross must confront
24 and adapt to a rapidly changing and very

1 challenging environment.

2 The healthcare system today appears
3 to be at a crossroads. We all know that the most
4 important issue in healthcare is the growth of
5 medical costs, which is the primary driver of
6 higher health insurance premiums.

7 Our customers expect health
8 insurance companies to act decisively on their
9 behalf to hold down medical cost increases. But
10 because of the ever-rising cost of medical care,
11 fewer businesses today, especially smaller
12 businesses, can afford to provide employee
13 healthcare benefits.

14 Access to health insurance is
15 another major issue. The rising cost of
16 healthcare, combined with the ripple effects of
17 the recession, has increased the number of people
18 without health insurance. While the Federal
19 healthcare reform law over time will help expand
20 coverage to more Americans, reform only
21 marginally addressed the cost dilemma.

22 We are also seeing rising concerns
23 about the quality of healthcare, including
24 differences in the way healthcare is delivered

1 from community to community, and patient safety
2 in healthcare institutions.

3 Despite the highest per capita
4 spending in the world, there is a widespread
5 belief that Americans do not receive the value we
6 should for our healthcare dollars.

7 At the same time, consumers are
8 taking a more active role in all aspects of
9 healthcare. Because they are more responsible
10 for their costs, consumers are seeking more
11 information about the cost and quality of care
12 across providers, and are taking a more active
13 role in their personal health.

14 These market dynamics are driving
15 changes in the way healthcare is delivered and
16 paid for, and health insurers must move quickly
17 to stay a step ahead of the shifting marketplace.

18 Highmark views change as a
19 springboard for innovation, developing new ways
20 to personalize products and services. In the
21 future, one size fits all health insurance
22 products won't meet the needs of demanding
23 consumers.

24 In the past two years, Highmark has

1 opened a number of health insurance retail
2 stores, where people can walk in, talk to a
3 representative, and get answers to questions
4 about health insurance options.

5 This retail marketing approach will
6 prepare Highmark for the introduction in 2014 of
7 purchasing exchanges, which will allow
8 individuals and small business to compare and buy
9 health insurance products based on price and
10 other important factors.

11 I mention the retail stores because
12 they are one of the many new capabilities that
13 health insurance companies must have in place to
14 meet consumer demand and compete in the
15 healthcare marketplace of tomorrow.

16 Health insurers must also invest in
17 employer health and wellness programs, programs
18 to help people with chronic medical conditions,
19 and new information technologies to simplify
20 business transactions with their customers,
21 physicians, and hospitals, just to name a few.

22 In addition, Highmark offers a
23 variety of online tools to help our members be
24 more actively engaged in their healthcare, manage

1 it smartly and achieve life-long good health.
2 These services allow members to compare health
3 plan options and choose the one that meets their
4 own needs, and to compare the cost of medical
5 services, so they can make informed healthcare
6 decisions.

7 Although there are many
8 uncertainties about healthcare delivery and
9 financing, one thing is certain: To compete
10 vigorously in the changing healthcare landscape,
11 organizations must have the financial resources
12 to fund expensive infrastructure improvements,
13 develop an array of new products and services,
14 and provide extensive web-based member services.

15 Small and large health insurers
16 alike must not only invest the capital wisely,
17 but also must avoid duplicate spending. Every
18 dollar spent on duplicate investments adds to the
19 cost of health insurance and brings little
20 additional value to subscribers.

21 Our business alliance will give Blue
22 Cross access to a wide range of Highmark
23 resources and services to help upgrade technology
24 and information systems, add new products, better

1 serve the people of Delaware, and avoid some of
2 the duplicate spending on infrastructure
3 improvements that would only add more cost to
4 Delaware's healthcare system.

5 In addition to the need for
6 significant capital to meet growing customer
7 demands, health insurers are being challenged to
8 operate more efficiently. Scale has become
9 increasingly important to achieve greater
10 efficiency and lower administrative costs.

11 Healthcare suppliers and service
12 companies in radiology, laboratory services, and
13 durable medical equipment are operating more as
14 multi market companies, to help ensure a steady
15 flow of capital, and to gain greater operating
16 efficiencies. As a result, the scale of
17 competition in healthcare is moving from a local
18 to a regional and national basis.

19 The health insurance industry has
20 also evolved. Over the past 25 years, many
21 for-profit insurance companies have joined
22 together to create larger companies. This gives
23 them scale to operate more efficiently by
24 spreading fixed operating costs over a larger

1 membership base and accumulating capital to make
2 the necessary investments in health information
3 technology, and new products and services.

4 The national Blue Cross and Blue
5 Shield system has also undergone similar change.
6 In 1980, there were 115 Blue Cross and Blue
7 Shield companies, each doing their own thing.
8 Each invested in new technologies, each invested
9 in new products and services. It was a very
10 inefficient model.

11 Today there are 39 independent Blue
12 Cross and Blue Shield companies, and our system
13 operates more efficiently. In fact, more than
14 100 million Americans now carry a Blue Cross and
15 Blue Shield card, compared to approximately 60
16 million subscribers in the 1980s.

17 The operating efficiencies achieved
18 over the last 30 years have contributed to this
19 growth. But the growing scale and capital
20 accumulation of the much larger national
21 for-profit companies is again making it more
22 difficult for not-for-profit Blue Cross and Blue
23 Shield plans to remain competitive. This is
24 especially true for smaller unaffiliated

1 companies, such as Blue Cross here in Delaware.

2 Highmark has a reliable track record
3 of establishing strong working relationships with
4 other Blue Cross and Blue Shield companies to
5 help them maintain a local presence, streamline
6 operations, and provide better service to
7 customers.

8 In some cases, we process claims,
9 provide an information technology platform, or
10 provide other administrative services for other
11 Blue Cross and Blue Shield companies, such as in
12 Louisiana, Tennessee, Florida, and northeastern
13 Pennsylvania.

14 The proposed alliance with Delaware
15 Blue Cross most closely resembles our current
16 relationship with Highmark West Virginia, which
17 dates back to 1999. Highmark has built a legacy
18 of investing to support the economy in West
19 Virginia, and the local communities we serve
20 there.

21 For example, over the past five
22 years, Highmark has generated more than \$106
23 million in economic impact for the Parkersburg,
24 West Virginia, region, by creating 300 jobs,

1 paying annual employee wages of more than \$9
2 million, and paying more than \$1 million in
3 business and occupational taxes.

4 In addition, the development of a
5 \$26 million Highmark West Virginia headquarters
6 building in downtown Parkersburg has spurred
7 development in the area.

8 Our experience in West Virginia and
9 elsewhere demonstrates that we have the
10 commitment, resources, and experience to partner
11 successfully with other not-for-profit companies,
12 to achieve greater operating efficiencies, such
13 as lowering the unit price to process a single
14 healthcare claim, and expand new business
15 opportunities for local Blue Cross companies.

16 It also shows we are serious and
17 steadfast about our philosophy and values
18 supporting local communities.

19 In summary, we believe the
20 affiliation will be a win/win for Highmark and
21 Blue Cross, and most importantly, for the people
22 of Delaware.

23 Through this alliance, Highmark will
24 support Blue Cross's mission of helping make sure

1 that healthcare services are accessible for
2 Delaware citizens and strengthening the Delaware
3 economy.

4 In short, these two companies are a
5 good match. By harnessing the resources and
6 strengths of both companies, we can jointly build
7 upon Blue Cross's strong customer and provider
8 relationships, and better serve Delaware
9 customers, healthcare providers, and the
10 community at large.

11 With that, I'll turn it back to Tim
12 for additional comments.

13 MR. CONSTANTINE: Thanks, Mike. As
14 Mike noted, our industry is experiencing a period
15 of rapid change. I am convinced that through
16 this relationship with Highmark, we can build
17 upon our 75 years of success and ensure that we
18 continue as the State's premier health benefits
19 company.

20 What do we consider to be the
21 important attributes that make Blue Cross
22 different from our competitors? First and
23 foremost, we are and will continue to be a
24 not-for-profit company headquartered in Delaware.

1 We also want to preserve the health
2 and vitality of our communities. That means
3 continuing to provide grants to community
4 organizations to help increase access to
5 healthcare for Delaware's uninsured and
6 underserved, reduce health disparities in
7 minority communities, and support programs to
8 recruit and train new healthcare professionals.

9 Since 2007, Blue Cross has provided
10 nearly \$8 million in direct support to our
11 community, through grants, sponsorships, and
12 donations.

13 And of course, we want to continue
14 to be an important economic engine for Delaware,
15 by maintaining substantial employment levels in
16 this state.

17 These attributes represent the core
18 of Blue Cross, but the overriding question for us
19 is, how can we maintain our focus in these areas
20 and remain a financially sound company, when the
21 healthcare environment poses a real threat to the
22 future of small, independent companies like ours.

23 Our board of directors and
24 management team studied this question extensively

1 for several years. We hired outside experts to
2 help us evaluate our business capabilities in
3 light of the changes taking place in healthcare,
4 and we looked at every aspect of our business and
5 asked the tough questions. Do we have the
6 resources to acquire leading edge technologies?
7 Will we have the resources to acquire or develop
8 new products and services that the marketplace is
9 asking for?

10 Will we have the large sums of
11 capital needed to meet new and expensive Federal
12 requirements? Can we grow membership on our own
13 to create the scale to lower our administrative
14 costs?

15 Similar to most companies over the
16 last few years, we have had to make some very
17 difficult decisions. For example, our workforce
18 has 100 fewer employees today than we had at the
19 end of 2007.

20 We also looked at the competition we
21 face in Delaware. Our competitors here are all
22 large national companies that have grown through
23 acquisitions and consolidations. Even the
24 smallest of our major competitors is still more

1 than 12 times larger than Blue Cross.

2 Adding to these challenges are
3 substantial infrastructure investments to comply
4 with new government mandates. For example,
5 effective in October, 2013, all health plans will
6 be required to implement a new set of
7 standardized codes to ensure more efficient
8 processing of healthcare claims and transactions
9 throughout the United States.

10 This conversion process alone will
11 require significant amount of time and effort,
12 and will require a massive capital expenditure if
13 we remain independent. To give you an idea of
14 the magnitude, this change will increase the
15 number of procedure codes that are billed, that
16 are needed, from 3000 to 87,000.

17 Compounding these challenges is the
18 healthcare reform law. Its impact on health
19 insurers is only beginning to be felt, and we
20 won't know the full scope of changes for health
21 insurers and the associated capital costs until
22 the Federal government issues more details about
23 the provisions of the law.

24 At a minimum, we know all health

1 insurers will have to redesign products to comply
2 with the law, completely overhaul the way
3 products are distributed as the new purchasing
4 exchanges are introduced, develop new methods for
5 setting prices for products, and change methods
6 of paying doctors and hospitals to encourage more
7 effective and lower cost care.

8 We all know that there will be a
9 host of new reporting and other administrative
10 requirements that small health insurers will find
11 inordinately difficult to meet on their own. All
12 of these changes will require huge capital
13 investments.

14 After weighing all of these factors,
15 we concluded that it was in Blue Cross' best
16 long-term interest to form a partnership with a
17 larger company, so we can continue our successful
18 75-year track record of serving our customers.

19 On our own, it would be difficult to
20 achieve the operating efficiencies of our much
21 larger competitors. On our own, we would lack
22 the capital and resources to comply with costly
23 government mandates and the new reform law's
24 requirements.

1 On our own, we could not continue to
2 thrive as a company and develop new products and
3 services needed to meet shifting consumer
4 demands. And perhaps most significantly,
5 remaining a stand-alone company will cost our
6 customers more money.

7 Customer premiums are estimated to
8 be 3 percent higher if we do not affiliate with
9 Highmark, because of the projected capital
10 spending necessary to remain competitive.

11 On the other hand, with Highmark as
12 a partner, we will save an estimated \$79 million
13 in capital costs over five years. Our customers
14 will benefit because of lower projected premium
15 increases than would have occurred if we remained
16 on our own.

17 Our past experience has also taught
18 us the advantage of a partnership, compared to
19 being on our own. During our past affiliation
20 with Care First Blue Cross Blue Shield that ended
21 in 2006, we increased our membership, grew
22 employment, controlled our administrative costs
23 better than we could as a stand-alone company,
24 improved our customer service, and strengthened

1 our financial position.

2 Since then, our ability to grow our
3 business, control administrative costs, and
4 compete against better financed and much larger
5 insurers in Delaware has been impacted.

6 And although we are a financially
7 sound company today, as Mike noted earlier, this
8 alliance is about the future, and ensuring that
9 we continue as the State's premier health
10 benefits company.

11 For all these reasons, we decided
12 that now was the right time to form a strategic
13 partnership. After careful deliberation, we
14 selected Highmark, a not-for-profit Blue Cross
15 and Blue Shield company, as our proposed
16 affiliation partner.

17 Why Highmark? Because an
18 affiliation with Highmark offers the best
19 opportunity for Blue Cross to remain a strong,
20 not-for-profit Delaware company, with a community
21 focus across the state, and able to compete
22 effectively in the Delaware health insurance
23 market over the long term.

24 Highmark will also help us expand

1 access to healthcare services for Delaware
2 citizens and bolster the Delaware economy.

3 There are other reasons we selected
4 Highmark. It has a good track record of
5 successful working relationships and affiliations
6 with other Blue Cross and Blue Shield companies.

7 As an example, we have researched
8 and visited Highmark's West Virginia affiliate.
9 As a result of the affiliation with Highmark, the
10 West Virginia plan operates more efficiently,
11 maximizes the use of information technology, is
12 financially more stable, offers more products and
13 services to meet the needs of West Virginians,
14 and has increased its employee workforce.

15 This experience, and the
16 testimonials shared, offer reassurance that
17 Highmark will bring similar benefits to Delaware.

18 Highmark also brings advanced
19 technology and support tools and resources that
20 will vastly improve our ability to serve Delaware
21 subscribers, employers, brokers, and agents,
22 physicians and hospitals.

23 For example, there's a real push in
24 healthcare today to make information readily

1 available to healthcare providers and subscribers
2 on a real-time basis. Highmark has developed
3 real-time transaction tools that let patients
4 know their actual out-of-pocket healthcare costs
5 tied to their benefits when they schedule or
6 receive healthcare services. This takes away the
7 guesswork from patients about the costs of their
8 medical treatment.

9 In addition, the real-time's claim
10 processing tool simplifies administration and
11 eliminate much of the paperwork for physicians
12 and other healthcare providers. More medical
13 claims are able to be processed without manual
14 intervention.

15 Delaware physicians and hospitals
16 will be able to determine a patient's financial
17 obligation when a service is rendered, and
18 providers submitting real-time claims will also
19 be reimbursed much faster than in the past.

20 With the help of Highmark's
21 technology, Delaware providers will also obtain
22 information in real-time about the status of
23 claims and our medical policies, and can conduct
24 many business transactions with us much faster.

1 These improvements will help control
2 administrative expenses for Blue Cross and
3 physician offices, while allowing physicians to
4 focus more of their time on patient care.

5 As Mike mentioned earlier today, the
6 major issue in healthcare today is the rising
7 cost of medical services. Delaware employers are
8 choosing employee health benefits today based on
9 whether a health insurer can help control their
10 employee healthcare costs.

11 When I meet with Delaware employers
12 on healthcare issues, one of the first things
13 they want to know is how can we help control the
14 growth of their employee healthcare costs and
15 foster a healthy, more productive workforce.

16 Through this affiliation, we will be
17 in a much better position to offer more solutions
18 for local employers. For example, Highmark
19 offers information reporting and analytical
20 tools, plus medical management programs and
21 services to support individual employers.

22 Armed with these tools, we will be
23 able to better -- we will be better able to
24 identify the underlying drivers of higher

1 employee medical costs on an employer by employer
2 basis, and then tailor solutions, such as health
3 promotion, wellness, or chronic disease
4 management programs, to help improve employee
5 health and reduce employee absenteeism.

6 In addition, we anticipate that
7 Highmark's broad mix of health insurance and
8 other employee benefit programs will create
9 additional growth opportunities for us in
10 Delaware.

11 For example, Highmark offers dental
12 insurance, vision programs, reinsurance products,
13 as well as broad health insurance programs geared
14 for seniors, individuals, and other segments of
15 the community.

16 By combining these complementary
17 products with our current health insurance
18 products, we could potentially serve a larger
19 portion of the Delaware population, particularly
20 those in the individual and senior segments.

21 I want to be very clear on this
22 point: The partnership is about much more than
23 using Highmark's technology platform and systems
24 capabilities to help us streamline operations and

1 better control administrative costs. This is
2 about having a trustworthy partner to help us
3 achieve a better future for Delaware, and bring
4 additional value to all industry stockholders in
5 this state.

6 We believe this affiliation will
7 help us achieve many goals. It will bring to
8 Delaware diversified and innovative products and
9 services, and a sophisticated centralized
10 resource team for some of the most critical
11 health insurance functions, such as developing
12 new products, identifying new business and sales
13 opportunities, conducting market research, and
14 managing medical and pharmacy costs for our
15 customers.

16 It will also bring Highmark's
17 experience and expertise with implementing new
18 provider payment methods, such as financial
19 incentives that link reimbursements to documented
20 improvements in clinical care and better patient
21 outcomes.

22 Healthcare reform is encouraging
23 changes in provider reimbursements to encourage
24 delivery of more cost effective care, rather than

1 simply delivering more services. With Highmark's
2 support, we can work collaboratively with the
3 physician and hospital community to help ensure
4 that changes in the delivery of medical care
5 benefit patients and providers, and I believe we
6 can realize substantial benefits for Delawareans
7 while preserving Blue Cross' local relationships
8 with our customers, doctors, and hospitals.

9 One of the main reasons we selected
10 Highmark as a partner is because they, too, value
11 the importance of collaborative local working
12 relationships. I want to assure you that our
13 local relationships will be maintained. Delaware
14 employers, physicians and hospitals will continue
15 to interact with the Blue Cross associates with
16 whom they have worked for many years.

17 Although we remain Delaware's market
18 leader in health insurance, and are financially
19 healthy now, the environmental forces that Mike
20 and I have discussed, plus the pressures facing
21 health insurers in the near future, dictate
22 decisive action.

23 As a small, stand-alone company, we
24 will lack the capital and resources to make the

1 necessary investments to meet marketplace needs
2 and respond to healthcare reform in the years to
3 come.

4 In conclusion, I want to emphasize
5 that without Insurance Department approval of
6 this partnership at this time, we run a long-term
7 risk of steadily losing our subscribers to large
8 for-profit health insurance companies based
9 outside of Delaware.

10 This would threaten our ability to
11 maintain a substantial employment level in the
12 state and support community health and human
13 services programs at the levels we have done for
14 years.

15 Dr. Ken Melani, Highmark's president
16 and chief executive officer, who will be joining
17 me at the session in Wilmington Thursday, often
18 says we can't have a community mission without
19 financial stability.

20 With that stability, Blue Cross can
21 continue to focus on our mission and community
22 support. But these values cannot be preserved if
23 our company is not competitive, relevant,
24 efficient, and financially viable.

1 And so, I believe this partnership
2 with Highmark must be approved to make us an even
3 better company, that has the human resources and
4 financial -- financial means to meet the
5 healthcare needs of Delawareans and our local
6 communities in the years to come.

7 Thank you for the opportunity to
8 make our comments this evening.

9 DEPUTY COMMISSIONER REED: Thank
10 you, Tim and Michael, for your comments this
11 evening.

12 We will now proceed to public
13 comment on the proposed affiliation. And we will
14 start out by those who have signed up to speak.
15 We do -- I will ask that you keep your comments
16 to five minutes. We do have a time keeper to my
17 left, Lorie Harrison. And we ask that you step
18 up to the podium when speaking.

19 And we will begin with Dr. Jo Ann
20 Fields.

21 DR. FIELDS: Thank you, Deputy
22 Commissioner Reed, for letting me speak, and the
23 entire panel.

24 My name is Jo Ann Fields. I'm a

1 medical doctor in Kent County. I'm a Blue Cross
2 provider, and I'm also a Blue Cross customer in
3 the small group market.

4 I believe that the Highmark/Blue
5 Cross affiliation has the potential to benefit
6 consumers in Delaware. My objective in speaking
7 today is to say that Blue Cross customers in
8 Delaware have a right to expect benefits from
9 this affiliation in the form of lower health
10 insurance rates. And we have a right to hold the
11 Office of the Insurance Commissioner accountable
12 for shaping this affiliation so that we see the
13 benefit of lower health insurance rates.

14 In my opinion, the Department of
15 Insurance should address the following issues:

16 Number 1, monitor surplus funds.
17 Hold Blue Cross to the same standards that
18 Pennsylvania now holds Highmark, as described in
19 notes to Highmark's 2010 financial statements in
20 Exhibit 11.

21 Currently, Highmark has to hold an
22 operating surplus defined as 550 to 750 percent
23 of the health risk/benefit ratio. If they have a
24 surplus over 550 percent, they are not permitted

1 to include a risk and contingency factor in their
2 filed premium rates.

3 If their ratio exceeds 750 percent,
4 they are required to justify their surplus level,
5 and potentially could be required to refund
6 excess surplus funds to customers, or apply it
7 against future rate increases.

8 I think that the same rule should
9 apply to Blue Cross in Delaware under the
10 affiliation.

11 Number 2, stop the entrenched
12 pattern of shielding Blue Cross financial
13 information and rate filings from public
14 scrutiny. We need a more rigorous and
15 transparent rate review process. Public scrutiny
16 of the reasons behind rate increases can only
17 help us all understand why our costs are going
18 up.

19 Number 3, support Senate Bill 56,
20 currently before the House Economics, Insurance,
21 and Commerce Committee in the Delaware General
22 Assembly. Senate Bill 56 requires the affiliated
23 Highmark/Blue Cross to offer a children's health
24 insurance program buy-in for Delaware families

1 who are over 200 percent of Federal poverty
2 level, at affordable rates, similar to what they
3 charge in Pennsylvania.

4 Number 4, encourage Highmark/Blue
5 Cross to make a competitive bid to participate in
6 Delaware Medicaid.

7 Number 5, work with the Delaware
8 legislature to modify State insurance
9 regulations, such that Delawareans can
10 participate in a larger pool of insured people
11 that includes customers in Delaware and
12 Pennsylvania, and thereby gain the cost savings
13 of a larger risk pool. This may eventually lead
14 to a regional health insurance exchange, as
15 defined under the new healthcare law.

16 In return, I expect the citizens and
17 the elected officials of Delaware to implement
18 the new healthcare law in a way that is fair to
19 the insurance companies and the insurance
20 brokers. Specifically, I believe that Delaware
21 should support the individual mandate to buy
22 health insurance, with certain hardship
23 exceptions.

24 We expect Blue Cross and Highmark to

1 take all comers, regardless of preexisting
2 condition, beginning -- and we do expect them to
3 do that beginning in 2014. They have a right to
4 expect that everybody is required to buy health
5 insurance, with hardship exceptions.

6 I urge the Insurance Commissioner
7 and the Delaware legislature to adopt
8 legislation, effective 2014, making it illegal to
9 deny someone for a preexisting condition, and
10 also adopt legislation making it mandatory that
11 every person in Delaware buy health insurance,
12 with hardship exceptions.

13 Thank you for letting me speak.

14 DEPUTY COMMISSIONER REED: Thank
15 you, Dr. Fields. And if I could just take a
16 moment to make sure that I understood most of
17 your questions. I believe most of them were
18 actually questions of the Department procedural
19 issues.

20 Monitor surplus funds of Blue Cross
21 Blue Shield Delaware and Highmark, hold them to
22 the same standards that have been implemented in
23 Pennsylvania, in terms of ratio of surplus, as
24 well as refunds to the policyholder if they're

1 over 750 percent.

2 Open up financial information and
3 rate filing data to the public. Support Senate
4 Bill 56, which is the CHIP buy-in sponsored by, I
5 believe, Senator Blevins.

6 Have Highmark/Blue Cross Blue Shield
7 bid for the Delaware Medicaid program, modify
8 State insurance rates, accepting a larger risk
9 pool, such as Pennsylvania and Delaware citizens,
10 implement healthcare law that is fair, to mandate
11 that people buy health insurance, and except
12 in -- particularly in the area of hardship
13 exceptions. And then implement the Federal
14 guidelines, support a law that would, in essence,
15 be in line with the Federal requirements for
16 2014 --

17 DR. FIELDS: Yes, sir.

18 DEPUTY COMMISSIONER REED: --
19 Patient Protection Affordable Care Act?

20 DR. FIELDS: Yes, sir.

21 DEPUTY COMMISSIONER REED: Okay.

22 Thank you for your comments.

23 DR. FIELDS: Thank you.

24 DEPUTY COMMISSIONER REED: I

1 appreciate it. Next we have Jeanine Kleimo.

2 MS. KLEIMO: Thank you, Deputy
3 Commissioner. Good evening. My name is Jeanine
4 Kleimo. I'm here as the chair of the Dover
5 Interfaith Mission for Housing. This is a local
6 nonprofit organization, an association of a
7 number of faith communities, nearly 50 in the
8 greater Dover area. We strive to shelter and
9 assist homeless men.

10 This does have something to do with
11 healthcare, in that we were one of the
12 beneficiaries of the Blue Cross Blue Shield
13 blueprints for the community program last year.

14 I understand that that grant program
15 has distributed more than \$2 million to Delaware
16 organizations since 2008, and it enabled us to,
17 first of all, be conscious of the healthcare
18 needs of those who are in a very serious
19 financial situation, and to use our funds, not
20 only to provide the basics of food and shelter to
21 them, but to establish linkages with the medical
22 community, to benefit homeless individuals, who
23 often have very serious healthcare problems.

24 I hope that, it is my hope as a

1 representative of the nonprofit community locally
2 that an effort such as this, which could create
3 greater efficiencies between the -- with the
4 merger of these two healthcare systems, would
5 generate a greater ability, through those
6 efficiencies, to provide resources to
7 organizations such as ours, which are able to
8 meet the needs of some of the lowest income
9 people in our community; those who lack the
10 ability to obtain formal health insurance, and
11 who are often in need of the kind of preventive
12 care and assistance that Mr. Warfel described he
13 has been involved with, that Highmark has been
14 involved with in some other communities.

15 So, I am hoping that the strength of
16 such an effort will generate awareness and
17 resources for community organizations who can
18 partner with those of you on a professional level
19 who are concerned about the healthcare needs of
20 our community.

21 Thank you very much.

22 DEPUTY COMMISSIONER REED: And
23 again, if I could --

24 MS. KLEIMO: Yes.

1 DEPUTY COMMISSIONER REED: -- just
2 kind of summarize. It didn't appear that you had
3 specific questions, but that you were in support
4 of sort of community organizations working
5 with --

6 MS. KLEIMO: That's right.

7 DEPUTY COMMISSIONER REED: -- the
8 affiliation?

9 MS. KLEIMO: That's right. It's not
10 a question. I'm here as a supporter of the kinds
11 of efforts that organizations such as Blue Cross
12 Blue Shield of Delaware have contributed to.

13 DEPUTY COMMISSIONER REED: We thank
14 you for your comments.

15 MS. KLEIMO: Thank you very much.

16 DEPUTY COMMISSIONER REED: I do want
17 to say that any comments that we have received in
18 connection with tonight's meeting will be
19 forwarded and responded to by the applicant and
20 by the Department.

21 Also, those who did not speak today,
22 that may have submitted comments, those will also
23 be forwarded and responded to.

24 (Mr. Houghton and Deputy

1 Commissioner Reed conferred)

2 DEPUTY COMMISSIONER REED: Okay.

3 What we will do is we will leave the record open
4 until 7:35, seeing that we -- let the record
5 reflect we have no other public individuals
6 signed up to speak right now. But we will leave
7 the record open until 7:35. Then we will come
8 back and reconvene, and see if we have any other
9 members of the public here to speak.

10 And at that time, if we do not, we
11 will adjourn. But I do want everyone to know
12 that we do also have another hearing scheduled
13 for Thursday night in Wilmington, where the
14 public can provide comment.

15 Thank you. We'll take a roughly
16 15-minute break.

17 (Recess held)

18 DEPUTY COMMISSIONER REED: Okay.

19 We're going to reconvene and go back on the
20 record. And for the record, I would also like to
21 introduce tonight Senator Brian Bushweller of
22 Dover. He's Chair of the Senate Banking
23 Committee. He is here tonight. Thank you for
24 joining us.

1 He had a committee meeting tonight,
2 and was able to get over. And we thank you for
3 coming over.

4 SENATOR BUSHWELLER: I'm sorry I
5 missed, obviously, most of it. But what I'm
6 going to try to do is go up to New Castle County
7 on Thursday and see what I missed.

8 DEPUTY COMMISSIONER REED: Great.
9 Thank you very much. Also for the record, we
10 have no other individuals from the public here to
11 speak tonight.

12 So, having said that, we do have
13 another meeting Thursday night in Wilmington at
14 the Carvel State Office Building, and that starts
15 at 6:00. So anyone from the public that was not
16 here tonight can also join us Thursday night in
17 Wilmington.

18 I want to thank everyone that was
19 here tonight for participating in this event, and
20 also, thank the speakers tonight. We really
21 appreciate the comments, and certainly, we are
22 going to review those comments as we go through
23 this transaction.

24 And again, appreciate your comments,

1 both Mrs. Kleimo and Dr. Fields. Thank you very
2 much.

3 That will conclude our evening
4 tonight, and we are adjourned. Thank you.

5 (Hearing concluded at 7:35 p.m.)
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I, JULIANNE LaBADIA, Registered Diplomat
Reporter and Notary Public, do hereby certify
that the foregoing record, pages 1 through 54
inclusive, is a true and accurate transcript of
my stenographic notes taken on May 17, 2011, in
the above-captioned matter.

IN WITNESS WHEREOF, I have hereunto set my
hand and seal this 19th day of May, 2011, at
Wilmington.

Julianne LaBadia, RDR, CRR

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