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Taking on Highmark

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Since the late 1940s, Western Pennsylvania has been known in health insurance circles primarily as "Blue" country.

Known originally as the Hospital Service Association of Pennsylvania, then Blue Cross of Western Pennsylvania and today as Highmark Blue Cross Blue Shield, the insurer has dominated the region's customer market for decades.

The dominance continues today as the insurer controls roughly 60 percent of the health insurance market. But that control may be ever so slightly declining. A combination of factors could open up the region's health insurance business, including:

- Continual double-digit annual premium increases, leading the region's employers to do more than just complain about the high cost of providing employee insurance;

- A growing movement toward empowering individuals to take greater control of and pay for more of their health care;

- The influx within the last few months of two huge national health insurance players, one returning to do battle, the other brand new to the area.

"Up until about six to 12 months ago, I would have said this was not a very good market to come into," said Thomas Tomczyk, head of the health care practice in Pittsburgh for Mercer Human Resources Consulting.

"When you look at the track record of companies that have come into the area, it is not very good. CIGNA and Aetna have been in and out of the area. UPMC Health Plan was the only threat to Highmark that has come on the scene in the last few years. Now, CIGNA is back in the area quoting to customers, and United Healthcare has hired a marketing force."

The arrival of United Healthcare could be a key to determining which companies can stand toe-to-toe with Highmark. A subsidiary of the second-largest health insurer in the country, Minnetonka, Minn.-based United Health Group Co., United Healthcare of Pennsylvania has been talking like an organization with very deep pockets (it is), willing to cut price to take market share.

"United has the financial prowess to lose money for a while to get things going," said David Straight, president of consulting company Benefits Network, Wexford. "United is the real deal with the cash to pull it off."

"We believe we have a lower cost basis than the competition, much lower administrative costs because we can spread our expenses over a much large subscriber base," said Thomas Knox, chief executive for Philadelphia-based United of Pennsylvania. United has more than 18 million customers in all 50 states and four international markets.

"The question is whether United Healthcare's entrance here will cause a shift in the balance of power," said Cliff Shannon, president of SMC Business Councils, the trade group that represents more than 5,000 primarily small businesses in Pennsylvania. "Any national carriers will have to work really hard to get business. But competition always is good."

Competition really does help hold down insurance costs. In its 2004-2005 survey of employers throughout the Tri-State area, Pittsburgh-based benefits consulting firm Cowden Associates Inc. found that the average cost for both individual and family coverage was lower in Ohio.

"Two factors are driving costs lower in Ohio," said Cowden's Vincent G. Wolf, the company's executive vice president and the person in charge of the annual employer survey. "Ohio has had competition for years while Pennsylvania, and particularly Western Pennsylvania, really hasn't had a lot of strong competition. There also is the demographics of the two states. Pennsylvania's, and again Western Pennsylvania's, population is much older."

The insurers realize the size of the opponent they are tackling. No one is bragging about how many customers it will snatch from Highmark, although United's Chief Operating Officer, Art Mullin, told the Tribune-Review that within five years his company expects to have 200,000 members in the six-county Pittsburgh area and to be recognized as the region's No. 2 health insurer.

For most competitors, it's not reverence for Highmark, it's reality. "Pittsburgh long has been dominated by one major player, but as health care has evolved it has created opportunities for national players," said Brian Dean, vice president of sales and customer relations for CIGNA Healthcare.

With now six major insurers aggressively pursuing business in a shrinking population, the subscriber pie is not growing, only shifting. That means all comers are eyeballing No. 1 Highmark. But its CEO says, "Bring it."

"This market always has offered a lot of choice in terms of insurers, but very few have stayed," said Kenneth Melani, Highmark's CEO. "They liked to make a lot of money, then pack up and move on. It's a little different this time. The national players are coming in, and it will be interesting to see the face they show to the customer."

Local health care consultants said Highmark realizes the competition is very real, and already has taken a sharpened pencil to its prices. "Highmark already is pricing its services aggressively," Benefits Network's Straight said. "And having significant reserves gives it the ability to price aggressively."

Melani said there is no mistaking Highmark's customer "face:" The company is based here, employs thousands here, its people live in the neighborhoods, and it's well-known for its community involvement and investment. "Competition is good for everyone; it keeps you focused on the customer, it keeps you being innovative," Melani said.

Carriers said the move toward what is known as consumer- or employee-driven health care, which in many cases pairs a high deductible health plan with a Health Savings Account, has opened the eyes of individuals concerning which procedures they undergo, what they pay for those procedures, even which health care provider they utilize.

"Over the last 12 to 18 months, consumer-driven health care, paired with the (federal) Health Savings Account legislation, really has juiced the business," said William Jesserer, Aetna's director of sales and service, based in Pittsburgh.

Price remains a huge factor in determining which company one uses. However, UPMC Health Plan believes it has competitive prices, and something additional that consumers desire, and it's found in the first four letters of the health plan's name.

"We are unique in the marketplace because of our relationship with care providers," said Michael Taylor, UPMC Health Plan's executive director for sales and marketing.

Closely aligned with many of the region's physicians and hospitals, continually lowering administrative expenses as a percent of revenue to nearly single digits, ala HealthAmerica/HealthAssurance, deep pockets to buy market share, a half-century of dominance -- western Pennsylvania has it all. But Highmark competitors would be wise to memorize the words of CEO Melani concerning "face."

"Highmark has name recognition; when a company in this region offers its employees health insurer choice, Highmark comes to mind because everyone knows its name," said David Lagnese, a principal with the consulting firm Towers Perrin in Pittsburgh. "The challenges the outsiders have is they absolutely must have a local presence and then build it into something. They must have name recognition."