

Testimony of Dr. Steven Udvarhelyi
before the Joint Session of
the Senate Health and Welfare Committee and
the Senate Committee on Insurance

February 5, 2024

Chairman Talbot, Chairman McMath, and members of the Committees, thank you for the opportunity to provide testimony related to the proposed Plan of Reorganization for Louisiana Health Service & Indemnity Company d/b/a Blue Cross and Blue Shield of Louisiana. My name is Steven Udvarhelyi, and I am the president and CEO of Blue Cross and Blue Shield of Louisiana, a role I have had the privilege to serve in since 2016. I am also trained as a board-certified internal medicine physician. With me today are Mr. Tim Barfield who is representing the Accelerate Louisiana Initiative, Mr. Morgan Kendrick, Executive Vice President of Elevance Health, Dr. Christy Valentine, President of Healthy Blue (our Medicaid company that is jointly owned by BCBSLA and Elevance Health), and finally, Mr. Darrell Langlois, the Chief Strategy Officer of BCBSLA.

Let me start by saying that BCBSLA is proposing the Plan of Reorganization to better serve its policy holders, and all of its members in general. As I am sure everyone is aware, health care is expensive, especially in Louisiana. We have close to the highest per capita health care costs in the country according to analyses done by the federal government (CMS). On top of that, Louisiana has ranked consistently at the bottom of the country in terms of health rankings. We are 50th out of 50 states. The status quo in health care is not working in Louisiana – we are paying more and getting less than other states.

As a reminder to members of the committees, what our policy holders and customers seek from us are products and services that allow them to get access to the best health care available, at the most affordable price. We advocate for our members and help them live their healthiest lives, and we help finance their health care costs at the best possible rates.

We are proposing the Plan of Reorganization because it will allow BCBSLA to offer its policy holders lower premium costs in the future than if the company stays as an independent, single state Blue Cross Blue Shield plan. In addition, the transaction outlined in the Plan of Reorganization will provide BCBSLA with resources and capabilities it could not obtain on its own, capabilities that will improve the health care experience for our members and improve their health. These improvements will be substantially greater than improvements BCBSLA could obtain if remains independent.

Many people have questioned why, as the largest insurer in the state of Louisiana, do we need to pursue this transaction. The reality is that we are the smallest insurer in the state. We have annual revenue of approximately four and half billion dollars. All of our Louisiana competitors are larger. United Healthcare and CVS Health (Aetna) have approximately \$350 billion in annual revenues. CIGNA has almost \$190 billion in annual revenue, Centene has approximately \$150 billion and Humana has \$90 billion. And they are actively deploying billions of dollars of capital in Louisiana, something that BCBSLA cannot compete with financially. When we are a part of Elevance Health, we will be part of a company that has over one hundred and seventy billion dollars in revenue, almost one hundred thousand employees and the capacity to invest over a billion dollars each year in new capabilities, products and services. On a stand-alone basis, we just don't have the resources to make the investments that our competitors are making, including recent investments that total billions of dollars in Louisiana.

I am sure you are all aware that a number of years ago United Health Care acquired Peoples Health in New Orleans, and more recently they acquired LHC in Lafayette for \$5.5 billion and they in the process of acquiring Amedysis in Baton Rouge for close to \$3.5 billion. Humana is

building CenterWell clinics across the state to serve their Medicare Advantage members, and Aetna, part of CVS Health, is taking advantage of every CVS pharmacy location across the state.

The Plan of Reorganization we have put forth will make us a better company, a Better Blue, by giving us access to resources, services and capabilities at a scale that is much more affordable for our customers. For example, we just invested in a multimillion-dollar contract with Epic to interact with providers in a way that can automate data exchange and simplify administrative work. Epic has been operational at Elevance Health for years. Compared to executing a multi-million dollar contract with Epic and doing all the implementation ourselves, we could be operational more quickly and at a fraction of the cost as part of Elevance Health because they spread the cost over almost 50 million lives compared to the 1.2 million lives we directly serve.

Another example is the cost of complying with the requirements of increasingly complex and expensive federal regulations, such the Consolidated Appropriations Act passed by Congress in 2020. BCBSLA has spent almost \$15 million to comply with the requirements of that act. Again, if we were part of Elevance Health, such costs could be spread out over 50 million members rather than the 1.2 million members we directly serve.

As you may know, the only source of funds we have to invest in our business comes from the margins we make. So, in that context, we pass along the costs of investing in technology and complying with federal laws to our customers as part of their premiums. If we are part of a larger company which can spread these costs over a larger membership base, then the cost to each customer will be less.

There has been a lot of discussion about the impact our proposed transaction will have on premiums. Detractors say that the transaction will increase premiums. That is just not true. For example, if you look at current premiums in the individual market and compare premiums in Louisiana to premiums in the other states that Elevance does business in as Anthem Blue Cross and Blue Shield, the premiums in the Anthem states are on average 26% lower than in

Louisiana – which equates to \$180 per month less expensive. New York was the one state with a higher premium, and in one state, New Hampshire, the premiums are less than half of what they are in Louisiana. Premiums will not go up when BCBSLA is part of Elevance Health. Rather, being part of a larger organization with greater scale and capabilities will allow us to make health care more affordable in Louisiana, as Elevance Health has done in other states.

As I believe you all know, we sought out a partner to help BCBSLA be a better company, which is how we arrived at this proposed transaction.

I joined BCBSLA in 2016. The year before that, BCBSLA was only offering commercial insurance policies, and had no presence in government business, such as Medicare Advantage and Medicaid. In fact, BCBSLA was the least diversified Blue Cross Blue Shield plan in the country in terms of sources of revenue. This is important, because the employer sponsored insurance market – historically our core business - is shrinking, and within that the insured group commercial business is shrinking the most. Let me restate that – our core business was shrinking. And the year before I joined, the company had significant financial losses.

We needed to reposition the company so that it could be successful moving forward. This repositioning included entry into the government lines of business and the execution of a strategy focused on improving the health of our members, making health care more affordable, and improving the experience for our members. We are proud to say that we are the only health insurance company in the state that offers a product in every parish for every constituency: individuals, groups, Medicare beneficiaries and Medicaid enrollees. We have done a lot in the last 8 years – but we don't think that is enough.

While we entered the Medicare Advantage business, and ultimately acquired Vantage Health Plan in Monroe, Louisiana to give us the capabilities to run that business, we still are operating at a smaller scale than desired where it is a challenge to be profitable, and we are at a

disadvantage to our larger, well-resourced competitors such as Humana, United Healthcare, and Aetna.

We entered the Medicaid lines of business by forming a joint venture with AmeriGroup Louisiana (a subsidiary of Elevance Health, then called Anthem) to create Healthy Blue. Since launching in 2017, Healthy Blue has been a successful participant in the Medicaid program within the state, largely due to the experience of our larger partner.

We also recognized that we continued to face headwinds in serving our commercial customers. To accommodate the complex arrangements required by our largest, self-funded accounts, we had to create partnerships with other Blue Cross Blue Shield plans to administer these accounts because our existing operating platform did not have all the necessary capabilities.

In light of these collective headwinds, over three years ago, the BCBSLA Board and management initiated a strategic review of the company to understand what aspects of our business were well positioned, and where did we need improvement so we could better position ourselves for long term success. To facilitate this strategic review, the company hired McKinsey & Co., a well-respected, national consulting firm. As part of the McKinsey engagement, they helped assess how the general environment and the health insurance marketplace were evolving, and whether BCBSLA was positioned for long term success. That assessment concluded that while we were competitive in the individual and small group markets, we had material opportunities for improvements in government business and in serving larger commercial customers. It also confirmed three other themes: 1) the pace required for deploying new capabilities was accelerating, 2) the cost of acquiring these capabilities was increasing, and 3) the cost and complexity of complying with increasing regulation of our industry were increasing as well.

The Board and management team concluded that the company should identify a partner to help ensure our long-term success moving forward, while the company was still in a strong

position, rather than wait until we fell behind BCBSLA's better resourced competition. In searching for a partner, the Board was committed to remaining a locally based Blue plan and focused on looking at other Blue plans as potential partners. In addition to getting further assistance from McKinsey on this, the company also engaged the services of Cain Brothers, an investment banking firm specializing in health care.

After analyzing the merits of virtually every other Blue Plan in the country as a potential partner, the company that was the best partner for us strategically was our existing partner in Medicaid, Elevance Health. Elevance Health is also the parent company of the local Blue Cross and Blue Shield plan in fourteen states.

The Plan of Reorganization that has been proposed is the result of what is required for us to combine with the best partner for our long-term success. Elevance Health is a publicly traded stock company and we are a mutual company. To combine with them, we need to demutualize to a stock company and then sell that company to Elevance Health in order to fully integrate into their operations and get the benefit of the scale and capabilities they have. We did not seek to sell the company per se.

It is important to note that while we have made the decision as a company to align with a stronger Blue Plan, we will remain a local company. Our offices will remain the same, our overall employment levels will remain the same, and we will maintain our local presence in the communities we serve. This really is the best of all possibilities – we become part of a larger, stronger company, but we also remain the local Blue Cross and Blue Shield plan that everyone in Louisiana has known for almost 90 years.

Another tremendous win as a result of the Plan of Reorganization is that it will fund a game changing non-profit entity for the people of Louisiana. That entity will continue the mission we've had since 1934, which is to improve the health and lives of the people in Louisiana. The non-profit entity will be one of the top twenty-five or thirty charitable organizations in the United States, and the only one solely focused on improving the health and lives of the people

of a single state – our state, Louisiana, which consistently ranks at the bottom in terms of health status. Almost all of the changes we have made to our Plan of Reorganization when we refiled it in December are related to the structure of this non-profit entity, moving it from a foundation to a special charitable trust, and Mr. Barfield will review those changes further in his comments.

To be clear, we are not a company that is in desperate trouble. But it is my belief, and our Board's belief, that at some point down the road there is a substantial risk that the Company will be at a material disadvantage to larger companies that have the capability to offer a broader range of health insurance products and services at a lower cost than we can. Let me be clear that we are in a very price sensitive business. Health insurance is typically the second highest cost for businesses after the salaries of their employees. If we become more expensive than our competitors, we will lose business. That already happens today.

We are also aware of those in our communities who believe this change is not a good idea. We have heard many misperceptions about what this transaction will do. We have heard that changing from a non-profit to a for profit company will cause premiums to go up, that payments to providers will go down, that we will eliminate providers from our networks, and that we will cease to be a local company and will lay off most of our employees. Those things simply are not true. As I just commented, we believe health care will be more affordable in Louisiana because of this transaction and I'd like to clear up these misperceptions. First, while we are a nonprofit mutual, we are not exempt from paying any federal or state taxes. We are fully taxed and there will be no additional taxes we need to pay after the transaction. We are considered a nonprofit mutual because we pay no dividends to our policyholders – we never have. Second, BCBSLA needs to make a margin on its business to stay viable, and the company targets a 2-4% margin, give or take, which is industry standard and within acceptable bounds for regulators and federal laws governing premiums. In fact, all successful insurers, nonprofit and for profit, have to make a margin—without that they wouldn't last long and regulators would be deeply concerned about the financial solvency of any insurer without margin.

Premium increases are determined by increases in healthcare costs (meaning increases in premiums are due to increases in what we pay to doctors, hospitals and other providers). Premiums are also responsive to both the market pressures of competition and the review of regulators. Today, our rate increases are reviewed by the Louisiana Department of Insurance to make sure they are reasonable, and that process will continue after the transaction. So existing competitive forces and regulatory review would not allow for any changes from past practices where our premium increases are simply based on the increase in underlying health care costs. My final comment on premiums is to point back to what I said earlier, if you look at the premiums Elevance Health charges in the states that they operate in as a Blue plan, those premiums are materially lower than what BCBSLA currently charges for the same coverage. So, there is no basis for thinking that premiums would go up because of the transaction. Just the opposite, there is every indication that our premiums will be lower if we are part of Elevance due to economies of scale and their track record of lower premiums in other states.

With regard to our provider networks, BCBSLA today contracts with over 95% of all providers in Louisiana. Elevance Health does exactly the same in all 14 of their other Blue states, and has done so for decades. There is no basis for assuming Elevance will adapt a different strategy in Louisiana, and I am sure Mr. Kendrick will further explain this.

On the topic of Elevance being problematic from a provider perspective, to me that is really based on hearsay and rumor. Most providers in Louisiana have never interacted with Elevance Health. Those providers in Louisiana who have had experience in working with both BCBSLA and Elevance in other markets have shared that their experience with Elevance is at least as good as with BCBSLA. On Friday, I received a very positive letter from a provider in Lafayette, Louisiana (VieMed) and I'd like to share that letter with members of the Committee. VieMed has worked with Elevance in 19 states, and candidly they believe Elevance Health is better to work with than all of Elevance Health's competitors. The letter comments that Elevance has a track record of integrity, being transparent and predictable in prior authorizations and paying

claims. They simplify administrative processes. Their technology is superior and helpful to providers. They have excellent customer service. And they retain a local focus in working with providers. So, the facts in those other 19 states tell a different story that what we are hearing from people with no experience with Elevance Health.

Finally, on the issue of BCBSLA laying off employees and ceasing to be a local company, we have committed to maintaining the level of our workforce in Louisiana, and that is in our agreement with Elevance. Maintaining a local workforce and presence is how Elevance runs its operations in other states. When we previously came before this legislature last fall, there was misinformation circulating that Elevance's office in Georgia only had 600 people. The truth is that they have thousands of employees in Georgia and when you compare Elevance's employment in Georgia today to what it was when Georgia Blue Cross and Blue Shield was an independent nonprofit plan, employment has almost doubled. We believe there are opportunities for employment growth in Louisiana following the transaction, just like what occurred in Georgia.

In summary, we believe this a unique moment in time, when we are a strong, viable company, to take advantage of a combination that will allow us to become a better company that will allow us to offer more services to our members and policy holders at a lower cost than if we stay an independent, single state Blue plan, and a combination that will secure the future of this great company for generations to come. It is a combination done on our terms so we can chart our own future for the benefit of our policy holders. However, should we not be able to move forward with this transaction, we need to realize that Blue Cross and Blue Shield of Louisiana will not look the same in 5 to 10 years as it does today. We work hard every day to be the best company we can be – to serve our members in the best possible way by improving their health, making health care more affordable, and improving their experience. But as an independent, single state Blue plan we risk falling behind our better resourced, national competitors in achieving those goals. We risk having more Louisianians turn to them for their health insurance needs if we can't provide the best products at the best price. And if we do fall

behind, we will become a weaker company that ultimately will seek out a partner once again. But then it will not be from a position of strength on our terms, but out of a necessity to survive and on someone else's terms. That will not be good for our policyholders, it will not be good for the providers in Louisiana, it will not be good for our employees, and it will not be good for the people and communities of Louisiana.

One thing we have heard consistently throughout the last year, since we announced the transaction, is that the people of Louisiana, and the providers in Louisiana, like and value Blue Cross and Blue Shield of Louisiana. We are grateful and humbled to hear that – and we want to keep it that way - which is why we are pursuing the transaction. The people of Louisiana have trusted us for 90 years to do the right thing for their health insurance needs. We ask that they trust us now – because this is a right move for the right reasons for our policy holders and for the people of Louisiana.

Thank you again for the opportunity to speak with you today, and I am happy to answer any questions you may have.

As prepared:

Morgan Kendrick

EVP, Elevance Health and President, Commercial and Specialty Health Benefits

Elevance Health

Good morning, Chairmans McMath & Talbot, Vice Chairs Jackson-Andrews and Bass, and members of the Senate Health & Welfare and Insurance Committees. It's a pleasure to be here with you today to talk about our proposed acquisition of Blue Cross and Blue Shield of Louisiana. My name is Morgan Kendrick, and I am Executive Vice President at Elevance Health and President our Commercial and Specialty Business at the company.

My experience with the company provides me with a unique perspective on what is achievable and I'm excited to bring these experiences to Louisiana. I've had the privilege of working at Elevance Health for 29 years, when it was Blue Cross and Blue Shield of Georgia – today known as Anthem Blue Cross and Blue Shield of Georgia. Having joined the company before it was acquired by Anthem, I have seen first-hand the benefits of being part of an organization with national scale and strength and what that means for the employees, providers, and its customers.

When I think about what this acquisition will mean for the employees of Blue Cross, I reflect on my own career journey at the company, when I started as a sales representative. Since then, I've had the privilege of serving as president of our Georgia health eventually assuming the role I have today, leading the commercial business...and I've done this all without leaving the state of Georgia or my hometown of Atlanta.

Creating a workplace that fosters professional development and career growth is vital for us to remain innovative, adapt to an ever-changing healthcare landscape and retain talent. For employees of Blue Cross, joining the Elevance Health team will provide them with expanded opportunities that otherwise may not be possible in Louisiana Think about the employee who aspires to grow their career at a large national company, in finance, digital, marketing, or IT, but doesn't want to leave their community....that would be possible with a career at Elevance Health. This year we expect to post more than 17,000 open positions. The 3,000 Blue Cross employees would have the opportunity to apply for these jobs, without leaving their home state.

In addition, they would have access to a broader network of colleagues across the country and professional development programs to support their career journey. In fact, just as we have experienced with other acquisitions, we expect the overall number of associates to increase over time here in Louisiana.

The Louisiana headquarters will remain in Baton Rouge and the office will be transformed into what we call a “PulsePoint.” We’ll upgrade the office and provide employees with a refreshed and state-of-the-art facility, where they can come together and collaborate with fellow colleagues. Each of our PulsePoints reflects the local culture of the state, city and communities where they are based. Our PulsePoints also have the potential to serve as a hub for greater expansion, as is evidenced by our Atlanta office where I am based. Today this state-of-the-art building houses several departments that support a variety of businesses across our enterprise where associates who support our Georgia plan and customers work side-by-side with associates from our growing digital and IT teams, just to name a few.

Beyond the added opportunities for employees, we are proud of a workforce that fosters and welcomes a diverse and inclusive environment. From our Board of Directors to Gail Boudreaux our President and CEO and throughout our organization: Elevance Health and its associates, are a direct reflection of the communities we serve across the country.

Today, 45% of our Board Directors are women and 36% of them are racially or ethnically diverse. Nearly half of all our associates in the organization are people of color and 76% our associates are women, and more than 65% of women in our organization serve in a leadership capacity.

We leverage the diverse perspectives of our associates, and we believe this is key to building and maintaining our high-performance culture, a culture that empowers people to be their authentic self as we work together to meet the needs of millions of people across the country. And, through our network of Business Resource Groups, our associates have an opportunity to have a direct impact on the diverse communities where we work and live.

And, while we’re proud of the workplace environment we have fostered, our efforts have been recognized by others. Every year since 2018 *Fortune* magazine, which ranks businesses on key measures around social responsibility and financial management, has recognized Elevance Health as one of the “World’s Most Admired Companies,” and since 2021 we’ve had the distinction of being named one of the “100 Best Companies to Work for.” In addition, like Blue Cross, Elevance Health has been recognized as one of the CIVIC 50, an award given to 50 companies in the country that are the most community minded, based on giving back to the communities they serve.

And while I’m excited about what this means for employees of Blue Cross, the impact this will have for Blue Cross customers will be transformative.

Our objective is to build upon Blue Cross’ 90-year legacy of service in Louisiana. We understand the value and trust placed in keeping leadership local, while simultaneously leveraging national scale capabilities. Our model is rooted in the belief that health care is best delivered locally, and we take pride in driving affordability and simplicity for our customers. And it is this belief – that community needs, drive health care solutions – which underscores our approach to the proposed acquisition of Blue Cross and Blue Shield of Louisiana.

Our strength lies in our network of providers and we're proud to have one of the largest provider networks of any insurer in each of its Blue geographies. For decades we've contracted with over 95% of all physicians, and nearly 100% of all hospitals in our Blue markets, and here in Louisiana we will maintain the same network of providers.

Customers will benefit from the \$4 billion in investments we have made in recent years in our nationwide portfolio of innovations including: behavioral health services, digital-first solutions, care management services and programs to help address complex and chronic conditions that so many individuals live with such as cancer and diabetes.

We also recognize that most aspects influencing a person's health lie outside traditional healthcare settings. To address this, we have developed innovative capabilities that will give members access to services that are currently unavailable in Louisiana.

Our Concierge Care program, for example, has demonstrated measurable health benefits in other states including a 39% decrease in ER utilization for members in our Concierge Care Oncology program and improved A1c scores for those participating in the Diabetes program. Members in rural areas will benefit from our telehealth services, which have become more prevalent and expanded access for thousands of customers. In 2022 alone, we saw more than 500,000 video visits; 140,000 video visits for behavioral health; and 60,000 primary care text-chat visits through our virtual channels.

Louisiana's rural communities will benefit from new access points, partnerships with independent clinics exclusively focused on serving rural areas, as well as mobile clinics and innovative telehealth services to ensure access to high-quality care no matter where a customer lives.

Expanding access to care won't be possible without the providers who are caring for patients every day in Louisiana. Over the past several weeks, I've spent time meeting with the medical community, listening and learning to what is important to them and how we can continue to work together and support them as they care for their patients.

We are committed to our service delivery approach with our providers. Their local service model will be maintained, providers will continue to work with the same Blue Cross partner they have known for years.

We are also committed to continuing the dialogue we've started with provider groups in Louisiana. This doesn't mean just timely responses, but it also means establishment of a provider advisory group so that we can work together, build trust, and improve the health of Louisianians.

As their partner, we want to ease administrative burdens allowing providers spend more time with patients and less on paperwork.

We'll do this without providers worrying about their reimbursement; current reimbursement practices will not change, and existing contracts will continue to be honored. We'll also be able to improve the time for claims to be paid, as our affiliated health plans across our 14 states process 98% of claims within 30 days and 99.8% of claims within 90 days.

We also want to strengthen the provider community through compensation for optimal outcomes and executing on our mutual interest to ensure patients receive the right care at the right time. Elevance Health is leading the way in rewarding providers for outcomes rather volume.

The results of our partnership with our providers are best reflected in our satisfaction scores we are presently ranking higher than our competitors in the markets we serve. When providers succeed, we succeed!

But our vision extends beyond maintaining the status quo. We want to take it a step further. We want to provide affordable, high-quality healthcare that is easily accessible to everyone across Louisiana's 64 parishes.

Healthcare is rapidly evolving and is highly competitive. Our focus isn't raising rates for members – we must provide value that customers deserve and will benefit from. Elevance Health views this partnership as a part of our mission to improve the lives of the people we serve and the overall health of their communities. We see a tremendous opportunity to do just that in Louisiana – by driving value through our scale and investments and maintaining competitive rates.

Without a doubt if this partnership isn't realized, customers will pay more for their healthcare. Today, we already seeing examples of increasing healthcare costs in the state.

The best way I can illustrate this is through the individual market. Today if a 42-year-old, man who is a non-smoker purchases an individual policy in Louisiana he can expect to pay \$707 in 2024. By comparison, in in all but one state where we operate an Anthem health plan, that same individual would pay less. In New Hampshire for example, that same individual would pay less than \$350 for the same insurance policy in Louisiana.

Creating value and affordability for Louisianians is critical and is something that I cannot stress enough, so let me be clear when I say: we do not plan to raise rates above what the medical cost trend and claims would dictate.

Elevance Health can deliver national scale locally. Today, Blue Cross cannot compete with national insurers on the types of improvements that make health care work for policyholders, but we can.

And we know we can because for the past 11 years we have partnered with Blue Cross through our joint ownership of Healthy Blue. Together we serve over 350,000 Medicaid customers with an overall approach to health that is personalized and holistic focusing on leveraging the most critical drivers of health for improvement of physical, behavioral and social factors. Today you'll hear more from our colleague Dr. Christy Valentine Theard, about the work we are doing with some of our most vulnerable communities and community members.

In closing, we are not just aiming to make a difference in Louisiana, we want to set an example for the entire nation, showcasing what can be achieved through an empowering blend of local initiatives and national scale.

We are powered by the shared belief that more can be achieved together, and together I am confident that we will make a significant, positive impact on health care in Louisiana and continue to work together to improve the health of humanity.

Thank you for your time and for the opportunity to share our vision with you today.

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