

Department of Banking and Insurance

**Hearing on Horizon Blue Cross Blue Shield Application to Reorganize into a
Not-for-profit Mutual Holding Company System**

**Oral Remarks of Jennifer Velez, Executive V.P. for Health and Network Solutions
October 6, 2022**

My name is Jennifer Velez. I am the Executive Vice President for Health and Network Solutions for Horizon Blue Cross Blue Shield of New Jersey and I am joined today by my colleague, Nicholas Peterson, Senior Vice President and General Counsel for Horizon. Nick has been leading our engagement with the Department on this application and we look forward to continuing to ensure that the Department has all that it needs to approve our application.

Thank you for the opportunity to speak with you today. I'd like to also thank you for the thorough and thoughtful process the Department has undertaken to arrive at this point.

The Commissioner of New Jersey's Department of Banking and Insurance is charged with ensuring that this application serves the best interest of our members, is consistent with our mission, and meets all of the legal requirements established by the law.

We appreciate the Commissioner leading us through a rigorous evaluation that has ensured a thorough, collaborative, and inclusive review of the merits of this application, including how it would benefit New Jersey. That is to the credit not only of Commissioner Caride, but to her entire team at the Department of Banking and Insurance.

First, I would like to provide an overview of who we are, what we are striving to achieve and why. I'll then turn to a more pointed discussion on the seven specific areas raised in the Department's Notice of Completeness. I'd also like to note up front that we've submitted a more in depth testimony in writing, so although I'll summarize everything as thoroughly as possible here today, everyone will have the opportunity to read our in-depth written testimony.

Horizon Blue Cross Blue Shield of New Jersey is a not-for-profit health service corporation providing a wide array of medical, behavioral, dental, vision and prescription insurance products and services to approximately 3.8 million members including more than 1 million who rely on the Medicaid program for their health coverage.

Since 1932, Horizon has led the transformation of health care in New Jersey by working with doctors and hospitals to deliver high-quality, accessible and affordable care. Horizon is also New Jersey's largest and oldest domestic health insurer and the only not-for-profit health insurer in the State. Horizon is proud to be a licensee of the Blue Cross and Blue Shield Association.

Horizon's core mission is to empower our members to achieve their best health. Our not-for-profit status informs every choice we make now and in the future. Our current corporate structure as a health service corporation enabled us to accomplish our goals for many years. But our structure was built for a different time. Many of the laws governing our current structure date from the 1980s and contain outdated restrictions and limitations that other New Jersey health insurers are not subject to. Those restrictions and limitations ultimately negatively impact our members and they are why we are here today seeking approval of a change.

Examples of these restrictions include strict limits on the size of investments we can make, revenue restrictions misaligned with our core mission, and a special premium tax rate that is higher than any other insurer that increases the cost of premium for our members. Healthcare is changing rapidly – since the time the legislation permitting this change to occur was introduced, more than 100 mergers and acquisitions have taken place in the health services sector. Just as quickly, what consumers want and are demanding from the healthcare system is evolving.

We must be positioned to compete if we are to continue to achieve our mission. A more modern structure as a not-for-profit mutual will provide affordable and accessible health insurance to our members by better situating Horizon to promote the integration of New Jersey's health care system and encourage the kinds of innovation that is needed to bring partnerships and solutions to lead the future for healthcare in New Jersey. It also means leveling the playing field with out-of-state, for-profit, insurers who are headquartered elsewhere, employ elsewhere, and serve their shareholders first.

In fact, the proposed mutual form is not new among not-for-profits, and today, more than 18 Blue Cross Blue Shield plans in other states operate as a mutual. But more importantly, the mutual legislation strengthens Horizon's not-for-profit mission by guaranteeing that Horizon remains forever a not-for-profit entity that exists for the exclusive benefit of its members. And it ensures that Horizon cannot be sold or transformed into a for-profit structure that is owned by shareholders or investors. To be clear, our nonprofit mission will not change.

As New Jersey's hometown insurer, seeing New Jersey thrive is personal to us. We employ more than 5,000 people, 75% of whom are women and 50% of whom are Black, Hispanic, or Asian. We maintain principal offices across New Jersey, in Newark, Hopewell, and Wall Township. We have provided more than \$60 million in grants to local organizations that improve the health and well-being of our communities.

As a not-for-profit mutual organization, Horizon could provide even more. According to an economic impact study of the 10-year impact of the reorganization, the proposed reorganization is projected to generate approximately \$4.16 billion in additional economic output and support nearly 2,000 more jobs per year, over \$1.9 billion in employee compensation, and an increase of approximately \$62 million in State income, sales, and business taxes.

I would like to take a moment to elaborate on why evolving to a not-for-profit mutual is critical to continuing to serve our members in this incredibly dynamic and competitive landscape – and what is required to avoid becoming what Assemblyman John McKeon described as a “dinosaur, unable to adapt and destined to become extinct.”

Our industry is in flux. Over the past decade, nationwide health insurers have increasingly consolidated the market and entered into the health care provider space. National payers continue to be aggressive in acquiring provider assets across the care continuum. UnitedHealth Group's OptumCare continued to double down on their provider footprint and presence in the Northeast. Private equity is investing heavily in health care, especially in hospitals and nursing homes.

And the rising costs of prescription drugs is of no surprise to the Department. While the overwhelming percentage of prescriptions filled are for generic drugs, the introduction of new, expensive therapies and treatments – especially specialty pharma – is dramatically increasing prescription drug spend.

Aligning affordability and quality via a value-based provider payment system has been slow to be adopted across the country, representing just 6.74 percent of total medical revenue at primary care practices. Yet, Horizon has made strides in aligning affordability with quality. Today, about 6,000 primary care physicians operate under a Horizon value-based reimbursement system.

While this represents substantial progress in New Jersey, we are now seeing increased competition from “non-traditional” primary care startups that are fueled by private equity. We are also seeing national competitors enhance their partnerships with providers and niche start-ups to drive forward a new model of quality, access, and affordability. The recent Humana-Cano transaction is the most recent example.

The changes made possible by the proposed reorganization will give Horizon the operational and financial flexibility it needs to explore and invest in such partnership and innovations. These are important tools to increase quality while bending the cost curve and will further the kinds of efforts we have engaged in the recent years, which I will briefly describe.

We’ve spent several years investing in, developing and piloting programs that address significant unmet health care gaps in our communities and bring health care to our members, including one million Medicaid members. Of particular significance is our focus on social determinants of health and behavioral health programs, two initiatives that are critical to improving the health of New Jerseyans.

Horizon has also created innovative partnerships to address the single biggest driver of health costs facing our members: rising drug costs. Roughly 20 percent of every Horizon premium dollar goes toward prescription costs. To help make drug costs more transparent and less costly for Horizon members, we created a number of partnerships and programs that strive toward that goal.

Horizon also invested heavily in meeting the needs of our growing senior population. Braven Health debuted in January 2021 as New Jersey’s first and only Medicare Advantage plan that is owned jointly by a health care provider and a payer – Horizon and some of the state’s most comprehensive health systems, Hackensack Meridian Health and RWJ BarnabasHealth. One unique feature to Braven is the direct involvement of a Provider Council made up of physicians across the network, including from HMH and RWJBH. The physicians provide insight on plan design, formulary administrative challenges, patient input, and more. Their input is acted upon to continuously improve services. Braven is already showing signs of success. It has reached 4 stars in its first year of operations – exceptional for a start-up – and was New Jersey’s fastest growing Medicare Advantage Plan upon its launch. Currently in eight counties, Braven will expand statewide in 2023 with additional partnerships with anchor health care institutions that will further our member-focused goals.

Lastly, to help our provider partners better coordinate care and gain valuable patient insights, Horizon developed HealthSphere, an online health care data exchange and management tool that provides a 360-degree view of patient health records in near real time. The tool aims to improve patient outcomes, lower costs and enhance patient experience by identifying gaps in care and addressing chronic disease management and more.

While these programs have created a real difference in the lives of many, they are relatively small in scale for our communities’ needs. Providing Horizon greater investment flexibility will enable the Company to bring these programs to a larger scale across the state as well as invest in additional resources to develop more cutting-edge platforms to promote access to care.

In particular, we believe there are meaningful opportunities to expand the size and scale of our efforts to lower costs, particularly for high-cost drugs, and expand on programs that address behavioral health and social determinants of health.

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I will now turn the discussion to answer some of the questions raised by the Department as part of its notice of completion. In answering those questions, which are also fully addressed in the written testimony, I hope to shed further light on some of the priority areas for investment and partnership moving forward, including what Horizon hopes to achieve as a New Jersey based not-for-profit mutual.

Commissioner, and members of the Department, one of the questions you had pertained to the purpose of the capital distribution to the new mutual holding company parent, and how those funds may be used to further our efforts to achieve our mission-oriented goals.

I will briefly explain. One of the benefits of Horizon's transition to a not-for-profit mutual holding company is that our organization will no longer need to sequester capital reserves that are not relied on for solvency purposes. Instead, such funds, including the planned distribution to the new mutual holding company can be deployed to pursue a range of opportunities in fulfilling our member-focused, not-for-profit mission. In addition, this funding will enable us to enhance and expand services that will extend our ability to meet the health needs of the people of New Jersey.

In considering what opportunities to pursue first, we have considered a range of options, including data-driven investments in improving health care quality, accessibility, and affordability. Notably, and as discussed in our restructuring Application, we have prioritized consideration for key investments in programs and activities to address Behavioral Health and the Social Determinants of Health. This could entail greater partnerships with community health hubs to get more resources in the hands of community health workers and aligned care delivery assets. It could also mean a business model that exports our learned expertise in this area to serve a greater group of beneficiaries across multiple insurance markets. For behavioral health, it could mean technologies, know-hows, tools, and business models that promote the integration of physical care and behavioral care. While our primary focus will be on improving services and outcomes for our members and serving more New Jerseyans, investment decisions will also be made to help ensure that Horizon, as a domestic insurer, can continue to compete with out-of-state for-profit insurers. Increasing Horizon's viability, and competitive strength, is critically important against the backdrop of consolidation in the health care marketplace, but also in the context of the national antitrust litigation where we anticipate greater competition among Blue Plans.

Finally on this point, because Horizon will remain a not-for-profit enterprise with a defined statutory mission, all of our activities and assets will be deployed in furtherance of our mission.

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Another area raised by the Department pertained to Horizon's ongoing commitment to the New Jersey marketplace. Horizon has a decades-long history serving New Jersey, and our products and services currently benefit members in all 21 of the state's counties. We have participated in the Affordable Care Act's health insurance exchange since 2014 with plans across all 21 counties.

That will not change.

That said, it's important to note that our continued service in all 21 counties in New Jersey is taking place in the context of ongoing concern about the rising cost of care and increased competition. In some cases, we have seen out-of-state, for-profit competitors respond by limiting their service area or narrowing their network to reduce choice. We are committed to work differently, and to find innovative solutions that will see us partner with a wide array of health systems to deliver ways to keep coverage affordable and accessible for residents of New Jersey. The best example of this commitment is Braven's expansion into all 21 counties. Our reorganization will put us on better financial and operational footing to continue to deliver statewide coverage.

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A related topic raised in the Department's notice pertained to how the reorganization plan might advance affordability. As discussed earlier in my testimony, by reorganizing, Horizon will gain important flexibility that will unlock greater opportunities for additional initiatives and tools to address the total cost of care.

These can range from enhancements to tools that empower members to better shop for services using cost-estimators and other meaningful transparency devices, to tools that will empower health care providers to stay coordinated across the member's health care journey to better address care gaps and health-adjacent needs, such as social determinants of health. In each case, these investments will further our goals to bend the cost curve and deliver coverage solutions that are sustainable.

Another example I wish to highlight pertains to potential opportunities to enhance drug affordability. We share in the Department's and many policymakers' goal to reduce the cost-burden of health care consumers in accessing life-saving drugs. We have already made considerable progress in this area but can do more. Over the past few years, Horizon has invested with other Blue Cross Blue Shield companies in organizations such as EQRx and Civica Rx, which each work to increase competition by developing a pipeline of generics and alternatives to high-cost therapeutics. Building on these partnerships will be a focus area for us as a not-for-profit mutual.

It is also worth noting that a change in Horizon's corporate structure yields more direct benefits to our members in terms of affordability. First, the reorganization will reduce the disproportionate tax burden felt by our members by reducing the premium tax. Second, by permitting Horizon to further diversify, it would lessen the existing reliance on member premiums to fund operational improvements and other innovations that are required to deliver on the kinds of tools and programs sought by our members.

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Another topic raised by the Department is health equity. Horizon has a long-standing commitment to support health equity—and we are immensely proud to make this a priority in our corporate and operational culture. In fact, in 2020, Horizon established a Pledge to address health care disparities related to race and the social barriers our members face in getting care. As part of

Our Pledge, we have made considerable investments across the communities we serve and are grateful for the opportunity to highlight just a few actions and collaborations we have pursued.

First, we have deployed the Horizon Neighbors in Health program, which is the most comprehensive effort yet in New Jersey to remove barriers that prevent Horizon members living in underserved communities from achieving their best health. As I noted earlier in my testimony, we have worked closely with community health workers and regional health hubs, including health systems in underserved communities to get the right resources and tools in the hands of members that need it most to address health adjacent social and economic needs. For instance, our doula program is aimed at improving health outcomes for mothers and babies, with a focus on populations that face health care disparities. Horizon doulas also help connect families with community resources to assist them in addressing social challenges that contribute to health. The reorganization would provide us with an important opportunity to expand on that further.

Our commitment to diversity, equity, and inclusion is also clear in our operational culture. For example, we closely collaborate with the African American Chamber of Commerce of New Jersey and the Statewide Hispanic Chamber of Commerce of New Jersey to improve our supplier diversity and to help drive additional diverse applicants for positions with our organization. In fact, Horizon will be the only insurance organization in New Jersey that will be required by law to make best efforts to reflect the diversity of its communities – and this is a commitment we readily embrace.

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The Department also asked us to address the reorganization's impact on Horizon's networks, and what efforts we might have underway to promote culturally competent care.

First, I'd like to unequivocally state that the reorganization will not change Horizon's plans, benefits, or associated networks. Horizon is proud of the array of network solutions we offer, including some of the broadest networks in New Jersey. None of that will change, and we look forward to advancing the kinds of lasting partnerships we have formed with some of New Jersey's leading health care institutions to deliver more solutions for our members.

And part of that effort includes programs designed to promote culturally competent care, including for LGBTQIA+ patients. In the past year, we have embarked on a number of efforts, including the collection of provider race and ethnicity information, to inform our members of choices they have in securing culturally competent care. We are in the early stages of these programs and hope to bring the tools our members need to be connected with providers and delivery solutions that will serve them best.

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Lastly, I'd like to address the Department's question on how this reorganization will benefit New Jersey.

All of the changes and investment that I have mentioned taken as a whole will vastly improve the State's overall healthcare infrastructure. As we serve 3.7 million members spread out in every zip code – including 1 million of the state's most vulnerable residents on Medicaid – the kinds of partnerships and investments that I have discussed will inure to the benefit of New Jerseyans

across multiple markets, and will promote a domestic, mission-driven option in the New Jersey health care marketplace.

Not only does the proposed reorganization ensure a more sustainable and resilient domestic option, it also promotes partnerships and programs that are specifically focused on New Jersey's health. Horizon has a proud history of working closely with some of New Jersey's most significant health care leaders and health system leaders, including through the OMNIA Health Alliance, to promote higher quality in-state care. Horizon's approach to these partnerships are deeply personal as they directly impact the communities we live and serve.

Another important point is the public good brought by increased economic benefits to the state. Independent economic research underscores that the restructuring would have significant, positive impacts on the New Jersey economy.

Based on a study performed by EConsult, a respected economic public policy consultant, which will present testimony today, each \$100 million in investments that Horizon makes across New Jersey is projected to generate \$206 million in additional economic output within New Jersey over a ten-year period, supporting 920 FTE job-years and \$76 million in employee compensation.

Investments enabled by the proposed form change would allow Horizon to innovate its management models, products, and services, and enhance its offerings while reducing the rate of cost growth. These improved products and services will attract additional members, and in turn support an even greater level of operating activity. Crucially, Horizon is locally based, while its main competitors are headquartered outside the state, meaning that enrollment, associated employment, and purchasing activity by Horizon leads to additional jobs and expenditures within New Jersey

Horizon's expenditures generate spillover activity throughout the state economy through its suppliers and through labor income that is recirculated as household spending. Including this spillover activity, Horizon's expanded operations under the restructuring compared to the status quo are projected to generate \$4.16 billion in additional economic output within New Jersey over a ten-year period, supporting 19,580 FTE job-years and \$1.9 billion in employee compensation. That would favorably grow the tax base as well.

While the projected economic benefits are meaningful, we know that the efforts that can be pursued because of the reorganization will yield considerable benefit to New Jersey's health care marketplace, enabling a greater range of health care programs, solutions, and partnerships that could specifically benefit New Jersey communities.

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I'd like to close by noting one last point. Our commitment to New Jersey and its communities is longstanding and unwavering. There is no question that a stronger Horizon means a stronger and healthier New Jersey. In that, our interests are aligned, and this reorganization will enable us to operate in the best and most efficient manner for the benefit of Horizon's members and the State's health care landscape.

We hope this testimony demonstrates our unwavering commitment to driving health care forward for New Jersey and our aspirations to improve the health outcomes and experience of our

members. On behalf of the more than 5,000 Horizon employees who serve them, thank you for your time and consideration.