

OPENING STATEMENT
PUBLIC HEARING ON PROPOSED CONVERSION OF
HEALTH INSURANCE PLAN OF GREATER NEW YORK

On behalf of the Health Insurance Plan of Greater New York, we would like to thank you for the opportunity to address the Assembly Standing Committee on Insurance and the Committee on Health and to present the perspectives of HIP Health Plan of New York regarding a possible conversion of HIP from not-for-profit to for-profit status.

When we speak of HIP today we are referring both to HIP and to its subsidiary, Vytra Health Plans, which is also a not-for-profit that would consider conversion should enabling legislation be passed.

The issue of HIP's possible conversion has merited substantial analysis and consideration at our company over the past several years. HIP has carefully investigated and analyzed the advantages and disadvantages of converting to for-profit status. HIP's management and the Boards of Directors of both HIP and the HIP Foundation are cognizant of the challenges and issues presented by such a conversion.

Of paramount concern for HIP and the HIP Foundation and their Boards of Directors is fulfilling HIP's purpose of providing affordable, quality health care to its members. As both committees are well aware, HIP was formed in the 1940s to provide quality health care to persons of moderate income through the efforts of former New York City Mayor Fiorello LaGuardia. Today HIP is a cornerstone of health care delivery in New York City. It is the largest HMO in the City based on membership, it is one of the largest providers of access to Medicare and Medicaid, and it participates in and supports Child Health Plus, Family Health Plus, and Healthy New York.

However, today's competitive marketplace is not the same as the one that existed in the 1940s. HIP cannot survive as a corporation unless HIP offers competitive products and services in the marketplace of 2005 and beyond. It is the duty and obligation of HIP's management and the HIP Boards of Directors to analyze how HIP as an entity can sustain itself, further its purpose and ensure its continuity as an on-going enterprise.

Change is an inevitable part of business. A business that does not adapt to changing conditions could cease to be a continuing operation. It is incumbent upon the HIP boards to evaluate current marketplace changes and determine how HIP can best meet those challenges.

Accordingly, the HIP boards have examined the dramatic change in recent years in the New York health insurance marketplace resulting from the increased presence of well-capitalized national health care companies. Unfortunately, limitations imposed on HIP as an Article 43 not-for-profit corporation place it at a significant competitive disadvantage to those well-capitalized companies. These limitations significantly hinder HIP's ability to expand and increase the efficiency of its operations because HIP, as a not-for-profit, has no ability to access the public equity markets.

To compete with the large commercial insurers, HIP must continue to make substantial capital improvements to its infrastructure. This includes improving its operating systems; implementing systems that improve the quality of care delivered; increasing access to electronic claims and medical records; and developing new product offerings and new lines of business to expand HIP's customer base.

Consequently, the competitive disadvantages resulting from HIP's not-for-profit status could ultimately result in the diminution of the existing not-for-profit asset. Ensuring the continuity of HIP's fundamental mission may require change to enable HIP to access the capital markets so that it can invest in technology and develop products and services that compete effectively in today's health care marketplace.

HIP's Board and the HIP Foundation's Board have considered the merits of conversion at many board meetings over the past several years. They have taken advice from counsel, outside auditors, and investment bankers. HIP has also consulted with its own Member Council, which represents HIP's diverse membership base.

No final decision that conversion is in HIP's best interest has as yet been taken. The Boards have authorized HIP's management to prepare a draft plan of conversion for possible submittal to the Boards for their consideration if appropriate. HIP's board members, pursuant to their duty of care and obedience, continue to consider all possibilities to best ensure HIP's successful future as a provider of access to quality healthcare at affordable prices. A final determination by our Boards on conversion would occur only after the State of New York were to pass enabling legislation permitting an entity such as HIP to convert to for-profit status. If, and when, such legislation is passed, the HIP and HIP Foundation Boards of Directors will review the legislation and determine if conversion is in the best interests of HIP and its members.

Should a decision be taken to convert to for-profit status, we will ensure that any subsequent conversion of HIP is seamless to HIP's members, providers and other constituents, and that it does not adversely affect HIP's members. Any potential conversion will be designed to protect their interests and by strengthening the company, would enhance their access to quality health care benefits and services. HIP will remain committed to servicing all of New York's populations through its participation in Medicare, Medicaid and the other state-sponsored health programs. We recognize that the proceeds from any such conversion and subsequent public offering will belong to the People of the State of New York to be utilized and divided as New York's Legislature and Executive deem appropriate, and we are confident that the call of the municipal labor unions and the City for a fair distribution of proceeds will be appropriately recognized in any such legislation.