

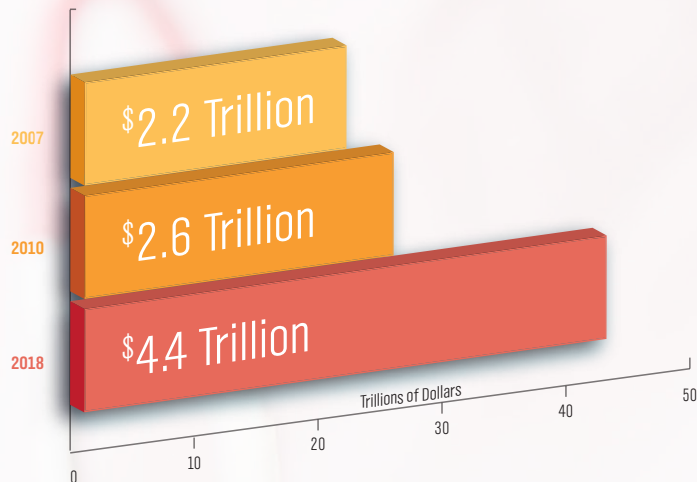
Getting to the bottom of health care costs

A look at the high cost of health care, rising insurance premiums and what we're doing to help control them.

First things first.

How much are we all spending on health care?

Before we can look at why health care premiums are going up, we should take a look at how much the U.S. spends on health care.



- ▶ In 2007, national spending on health care reached \$2.2 trillion.
- ▶ In 2010, national spending on health care will likely reach \$2.6 trillion.
- ▶ In 2018, national health care spending will likely reach \$4.4 trillion.¹

Health care costs and premiums go hand-in-hand. If costs go up, so do premiums.

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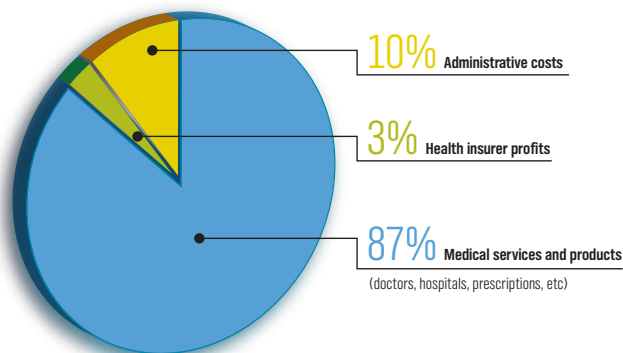
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Where does your premium money go?

On average, 87 cents of every dollar you pay us is spent covering medical care and services that members receive like doctor visits, hospital costs, prescription drugs and more.² So when the costs for these services go up, so must our premiums. Another 10 cents of every premium dollar funds the services we provide like claims processing, enrollment and billing, provider credentialing and complying with government regulations. We also use this portion of your premium dollar towards our efforts to control the rising cost of care. More about that in a bit.

That leaves three cents of every premium dollar for profits. Let's put that into perspective. The combined annual profits of the top 10 health insurers are equal to just two days worth of national health care expenditures – or 0.5% of the estimated \$2.5 trillion the nation spent on health care in 2009.³

Where does my health insurance premium dollar go?²



What's driving the high and rising cost of health care?

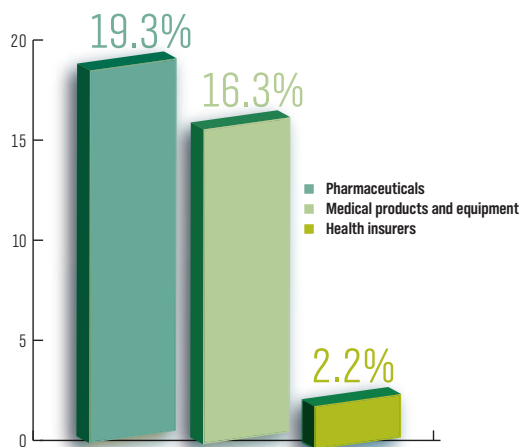
This is the question that's at the heart of the matter. And it's what we need to understand before we can try to control costs. It's important to look at the real drivers behind high and rising health care costs and health care premiums.

- ▶ **More expensive technology, used more often** – No doubt, modern medicine is amazing and can save lives. And as better tests and more expensive equipment and pharmaceuticals emerge, we can expect to see an increase in the use of these services. Technology is the key driver of health spending, accounting for an estimated half to two-thirds of spending growth.⁴
- ▶ **Inflation** – Just as we spend more today for a gallon of milk than we did 20 years ago, we spend more today for the same medical services than we did in years past. This medical price inflation outpaces general inflation and is driving 51% of the growth in health care spending.⁵
- ▶ **Cost shifting** – When government programs like Medicaid and Medicare underpay for medical services that patients receive, private insurance companies have to pick up the balance. A 2008 report – issued by an independent firm that researches health care trends – estimates the total annual cost shift from Medicare and Medicaid to private insurers is more than \$88 billion. The report also estimates cost shifting accounts for \$1,788 of the annual health care costs for a typical family of four, or 10.7% of their total costs.⁶
- ▶ **High cost of complying with government regulations** – Private health insurers spend over \$339.2 billion in order to comply with government health care regulations. While we spend some of this money paying for benefits that we're required to cover like certain screenings and certain prescription drugs, more than half of the money is spent on regulatory costs such as filing and reporting requirements.⁷
- ▶ **Patient lifestyles** – Increasing numbers of patients who are challenged by obesity, smoking, drug abuse, poor nutrition and physical inactivity contribute to an increase in the use of, and therefore the cost of, health care services.⁸ These preventable risk factors⁹ can also contribute to chronic diseases, which account for 75% of the money spent on health care in the U.S. each year.¹⁰
 - ▶ **Obesity** – The percentage of obese adults now exceeds the percentage of healthy weight adults.
 - ▶ **Tobacco use** – One in five adults smoke.
 - ▶ **Sedentary lifestyle** – Less than one-third of adults report getting regular exercise.
 - ▶ **Poor nutrition** – One in six adults has high cholesterol.

Other factors contributing to high and rising health care costs:

- ▶ **More care isn't necessarily better care**
Sometimes patients receive tests they may have already had, treatments that haven't been proven to work and even unnecessary hospital stays. In fact, according to a RAND study, on average, one-third or more of all procedures performed in the U.S. appear to be inappropriate or offer questionable benefits to patients.¹¹
- ▶ **Health care fraud and abuse**
The National Health Care Anti-Fraud Association estimates conservatively that 3% of all health care spending, or \$68 billion, is lost to health care fraud each year - that's more than \$180 million per day.¹²
- ▶ **Prescription drug costs and use¹³**
Between 1997 and 2007, prices for prescription drugs grew at an average rate of two-and-a-half times inflation.
 - ▶ Specialty drugs – drugs that are usually used for unique reasons – can save and extend lives, but they're much more expensive than other drugs. For example, a new cancer drug can cost \$100,000 or more per patient for the course of the treatment.
 - ▶ Half of all adults in the U.S. take at least one drug a day; 7% of all adults in the U.S. take at least five drugs a day.
 - ▶ 2/3 of people who go into a doctor's office walk out with a prescription.

Health care industry profit margins¹⁴



Trailing way behind pharmaceuticals (19.3%) and medical products and equipment (16.3%), health insurer profit margins (2.2%) are among the lowest in the health care industry.

What we're doing to help reduce costs.

We already mentioned that we use part of your premium dollar to help control the rising cost of care. Here's a look at some of what we're doing:

- ▶ **Helping to control rising costs**
 - ▶ Promoting quality of care, not quantity of care, by encouraging treatments that are proven to work and by paying doctors based on their performance
 - ▶ Supporting new advances in health information technology – like electronic medical records – to help improve the quality of care people receive and reduce administrative costs
 - ▶ Starting a radiology quality and utilization management program to help make sure high-cost procedures like MRIs and CT scans are being used appropriately. This helps improve patient safety and can help lower costs
 - ▶ Entering a 10-year agreement with ExpressScripts to work on giving members access to more affordable drugs
- ▶ **Helping to improve member health**
 - ▶ Educating our members about health and wellness to help reduce risk factors like obesity and smoking
 - ▶ Enrolling members at high risk for serious conditions and those with chronic conditions in our care and utilization management programs where nurses help them manage their health and control costs
 - ▶ Working to make sure prescription drugs are used appropriately to help prevent and manage illness
- ▶ **Minimizing expenses**
 - ▶ Promoting new ways of reducing medical errors and adverse drug events
 - ▶ Finding and recouping dollars lost to fraud, reducing legal costs and controlling administrative costs

What's next? We'll remain committed to helping control health care costs.

We value your business and are genuinely concerned about providing you with health care plans that aim to keep your workforce and your bottom line healthy. As the U.S. continues to have discussions about increasing health care costs and rising insurance premiums, we plan to keep on working to find new ways to reduce costs and improve your health.

For more information, please visit anthem.com/ca.



- ¹ Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistic Group, at http://www.cms.gov/NationalHealthExpendData/downloads/NHE_Extended_Projections.pdf
- ² PricewaterhouseCoopers' Health Research Institute "Share of Benefit Premiums" Medical Cost Trend for 2009.
- ³ Kaiser Health News, June 19, 2009
- ⁴ Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed April 27, 2010).
- ⁵ Businessweek, "Behind Rising Health-Care costs" July 14, 2008. http://www.businessweek.com/technology/content/jul2008/tc2008079_279097.htm (accessed April 27, 2010).
- ⁶ "Hospital & Physician Cost Shift: Payment Level Comparison of Medicare, Medicaid, And Commercial Payers," Millman, December 2008
- ⁷ Conover, Christopher J. "Health Care Regulation: A \$169 Billion Hidden Tax," October 4, 2004. http://www.cato.org/pub_display.php?pub_id=2466 (accessed April 22, 2010).
- ⁸ PriceWaterhouseCoopers, "The Factors Fueling Rising Health Care Costs 2008" December 2008.
- ⁹ Thorpe, et al, Health Affairs, June 2005.
- ¹⁰ Will Dunham, More Americans getting multiple chronic illnesses, Thomson Reuters, January 2009.
- ¹¹ <http://www.rand.org/health/feature/forty/health-services-utilization-study.html> (accessed (accessed April 21, 2010).
- ¹² National Health Care Anti-Fraud Association "The Problem of Health Care Fraud." http://www.nhcaa.org/eweb/DynamicPage.aspx?webcode=anti_fraud_resource_cent&wpscode=TheProblemOfHCFraud (accessed April 4, 2010).
- ¹³ Kaiser Family Foundation & Sonderegger Research Center: "Prescription Drug Trends" A Chartbook Update, November 2006; Blue Cross Blue Shield Association
- ¹⁴ Compiled from data from Fortune magazine's "Fortune 500 Annual Ranking of America's Largest Corporations," 2008

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