

2010 medical cost trends

The cost of health care. It's one of the biggest issues facing small businesses today. Offering health insurance is critical to attracting top talent, but how do you balance rising health care costs with bottom line profitability?

Anthem Blue Cross created this guide to help you understand why health care costs are rising and what we're doing to help you maximize your benefits, while minimizing health care expenses.

Why are rates rising?

The cost of health care is a significant issue for businesses, employees and health insurers. In 2008, national spending on health care reached \$2.3 trillion. Many factors contributed to this growth.¹

Factors that drive higher treatment costs:

- Medical price inflation is driving 51% of the growth in health care spending.²
- Doctors in the U.S. earn two to three times as much as other industrialized countries.²
- More physicians are becoming specialists, and specialists charge up to twice as much.
- Between 1997 and 2006, compensation increased 97% for dermatologists, 78% for gastroenterologists and 65% for radiologists.³
- The latest in medical technology may lead to improved care, but its contribution to health care spending growth ranges from 38% to 65%.⁴

Prescription drug costs and utilization:⁵

- Between 1997 and 2007, prices for prescription drugs grew at an average rate of two-and-a-half times inflation.
- Specialty drugs can save and extend lives, but can be expensive. A new cancer drug can cost \$100,000 or more per treatment regimen.
- 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.

Cost shifting:

- Government programs — such as Medicaid, SCHIP, and Medicare — pay physicians and hospitals lower rates than private insurers.
- Providers adjust prices charged to insurers to offset losses from partial or non-payers.
- A Milliman study found cost shifting represents 15% of the amount spent by commercial payers to hospitals and physicians.

Health care fraud and abuse:

- According to the National Health Care Anti-Fraud Association, health care fraud is a growing problem that is estimated to cost \$69 billion. This translates to \$100 million per day, making health care more expensive for all.
- Health care fraud accounted for 5% of the \$1.9 trillion spent on health care in 2004.

Other factors:

- *Variation in medical treatment* – According to a RAND Corporation study, up to 30% of health care spending goes toward redundant or inappropriate care.⁶
- *Adverse selection* – Healthier individuals and groups dropping coverage or reducing the level of coverage, particularly in a challenging economy, result in higher premiums for those who remain.
- *Government taxes and mandates* – This may also increase the overall cost of coverage.

Lifestyle factors

Multiple chronic health conditions:⁷

- Chronic disease accounts for about 75% of the more than \$2 trillion spent on health care yearly in the U.S.
- 80% of seniors have at least one chronic condition.
- 50% of seniors have at least two chronic conditions.
- In 1996, 7% of Americans had more than three chronic conditions. In 2005, the percentage rose to 13%.
 - For ages 45-64, it went from 13% to 22%.
 - For ages 65-79, it went up to 45%.
 - For ages 80 and older, it went from 38% to 54%.

Preventable risk factors:⁸

- *Obesity* – 10% of total claims costs are directly attributable to obesity.
- *Tobacco use* – 25% of Americans smoke and 10% of total claims costs are directly attributable to smoking.
- *Sedentary lifestyle* – 60% of Americans don't exercise and only 3% follow basic wellness goals.
- *Poor nutrition* – 60% of Americans exceed their ideal body mass index (BMI).

Where does the money go?

In 2007, PricewaterhouseCoopers Health Research Institute completed a national report to determine factors driving health care costs.⁹ The report shows that on average 87 cents of every premium dollar is spent on medical services and products, with hospitals and physicians receiving more than two-thirds of the premium.

On average, for each premium dollar spent, 10 cents goes toward insurers' administrative functions, which include:

- Information technology investments
- Premium taxes
- Fraud detection
- Provider credentialing
- Pay-for-performance programs
- Enrollment and billing
- Claims processing



*Includes prevention, disease management, care coordination, investments in health information technology and health equity.
Based on a PricewaterhouseCoopers analysis, Factors Driving Rising Healthcare Costs 2008 © 2008 America's Health Insurance Plans



Profit Misperceptions

According to the latest Fortune 500 ranking of the most profitable industries (see a partial listing below), health insurers rank 35th out of 53 industries, with an average profit margin of just 2.2 percent in 2008.¹⁰

Profit Ranking	Partial Industry List	2008 Profit as % of Revenue
1	Network and Other Communication Equipment	20.4%
3	Pharmaceuticals	19.3%
4	Medical Products and Equipment	16.3%
9	Oil and Gas Equipment Services	10.2%
18	Commercial Banks	5.2%
34	Medical Facilities	2.2%
35	Health Care – Insurance and Managed Care	2.2%
52	Airlines	-13.5%

In contrast, pharmaceutical companies rank 3rd with an average profit margin of 19.3 percent, and medical products and equipment companies rank 4th, with an average profit margin of 16.3 percent.¹⁰

How is Anthem Responding?

Anthem is deeply concerned about rising health care costs and declining health trend results. That's because they impact you and your employees. We're committed to creating programs that can help you reduce costs and improve your health and your employees health. Here are some solutions you can take advantage of right now.



360° Health®

This is a total health solution that can help empower your employees to become more informed about and involved with their health and wellness. And, better health outcomes can mean increased productivity and better control of health care dollars. Through 360° Health, which is free and included in your group's benefit plan, your employees have access to targeted programs, services and one-on-one support, including:

- **ConditionCare** — Identifies and helps members living with a chronic condition.
- **ComplexCare** — Identifies members with complex health issues and addresses concerns before they become more serious or costly.
- **MyHealth Advantage** — Provides members with timely alerts, called MyHealth Notes, which notify your employees of possible gaps in medical care, medication alerts, or possible ways to save money.
- **24/7 NurseLine** — Provide anytime, toll-free access to registered nurses for answers to general health questions and guidance with critical health concerns, so members can make informed decisions.
- **MyHealth@Anthem®** — Provides secure online access to up-to-date information about diseases, medicines, medical-related procedures and treatments. It also offers a health risk assessment to identify personal risk factors. The site is designed to help employees stay healthy and make more informed choices about their care.
- **Future Moms** — Gives moms-to-be telephone access to nurses to discuss pregnancy-related concerns.
- **Time Well Spent online toolkit** — Offers everything you need to start a wellness campaign in your workplace, including posters, articles, payroll stuffers and more.
- **Anthem Care Comparison** — This online cost and quality comparison tool allows your employees to preview average costs and outcomes for common services at their local hospitals.

Generic prescription utilization

We reach out to members who use brand name maintenance prescriptions, but may benefit from using lower-cost generic equivalents instead. We also offer savings on mail order prescriptions that can cut costs by as much as two-thirds. With our Lower Mail Copay program, members receive a 90-day supply of generic medications for the same copay as a 30-day supply at a retail pharmacy, and a 90-day supply of formulary brand and non-formulary brand medications for the same copay amount as a 60-day supply at retail.

Utilization management

Initiatives include early identification and treatment of at-risk members.

Anthem Care Comparison

Online cost and quality comparison tool that allows members to preview average costs and outcomes for common services at their local hospitals.

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



- 1 CMS National Health Expenditure Data, "National Health Expenditures 2008 Highlights."
- 2 California Healthcare Foundation.
- 3 BlueCross Blue Shield Association, "Physician Compensation by Selected Specialty, 2007". 2008 Medical Cost Reference Guide: Facts and Trends Driving Healthcare Costs, Quality, and Access.
- 4 Newhouse, JP "Medical Care Costs" and The Robert Wood Johnson Foundation.
- 5 Kaiser Family Foundation & Sonderegger Research Center: "Prescription Drug Trends" A Chartbook Update, November 2006; Blue Cross Blue Shield Association
- 6 Fisher, E., Wennberg, D., et al., "The Implications of Regional Variations in Medicare Spending: Part 2, Health Outcomes and Satisfaction with Care", Annals of Internal Medicine 2003; 138:288-98
- 7 Reuters: "More Americans Getting Multiple Chronic Illnesses," 2009.
- 8 Thorpe, et al, Health Affairs, June 2005.
- 9 PricewaterhouseCoopers' Health Research Institute "Share of Benefit Premiums" Medical Cost Trend for 2009.
- 10 Compiled from data from Fortune magazine's "Fortune 500 Annual Ranking of America's Largest Corporations," 2008

****Programs are available for Lumenos products ONLY. HMO and PPO products are excluded.**