

driving to healthcare affordability

Presented by: **Paul Markovich**
Executive Vice President & Chief Operating Officer
Blue Shield of California

agenda

- the affordability crisis
- potential solutions
- what employers can do

the brutal reality regarding affordability

- in the past decade, California HMO rates have increased on average **11%** per year.
- if we manage to reduce that trend to **8%** in the next decade, prices will double by 2020. . .
- . . . and our Access +HMO family rate for CalPERS members will be nearly **\$39,000** per year.
- we believe this will not happen. either the private sector will solve this issue or it will be solved for us.



employers can hardly afford today's rates

It costs less to hire a software engineer in India than it does to pay for the health benefits of a software engineer in Silicon Valley

—Blue Shield Analysis (after conversation with Venture Capitalist)

“Wow, we’re paying almost twice in health care costs as what we’re making in earnings...”

—Steve Burd, CEO of Safeway, *The New York Times*, November 29, 2009

(The company now spends) “almost as much on health care for our partners as we do on the green coffee we buy.” —Howard Schultz, CEO of Starbucks Corp, *Thomson Reuters*, July 27, 2009

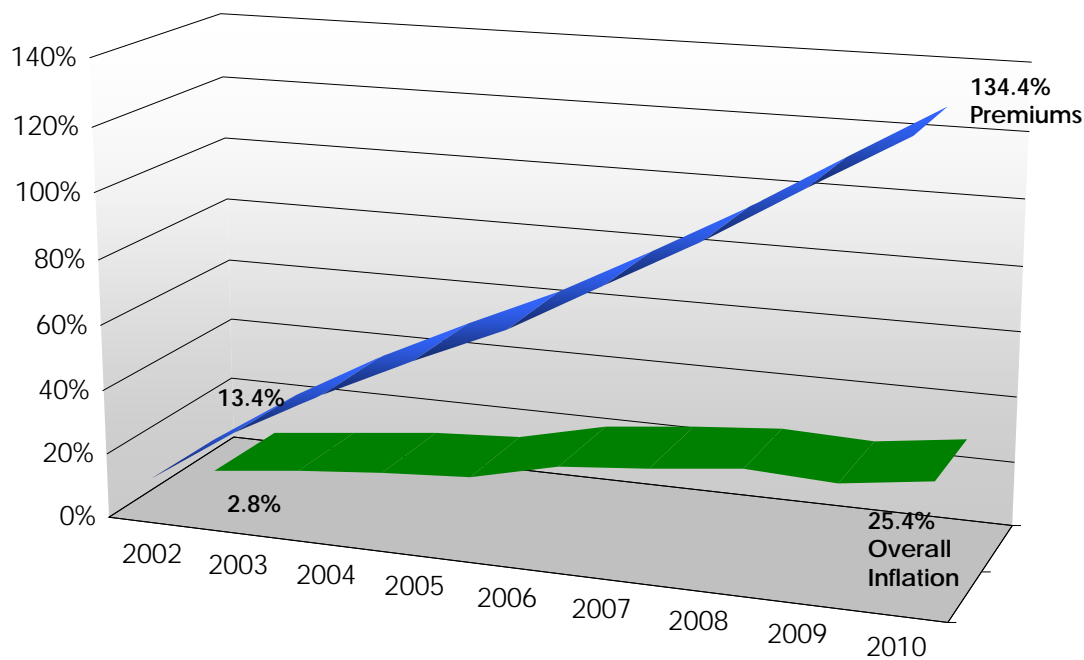
“G.M. has to address how a company that lost more than \$20 billion last year can afford \$5 billion a year in medical bills.”

—*The New York Times*, February 17, 2009



and our trends threaten the long-term viability of private health insurance

Cumulative Premium Increases Compared to Inflation
California, 2002 - 2010



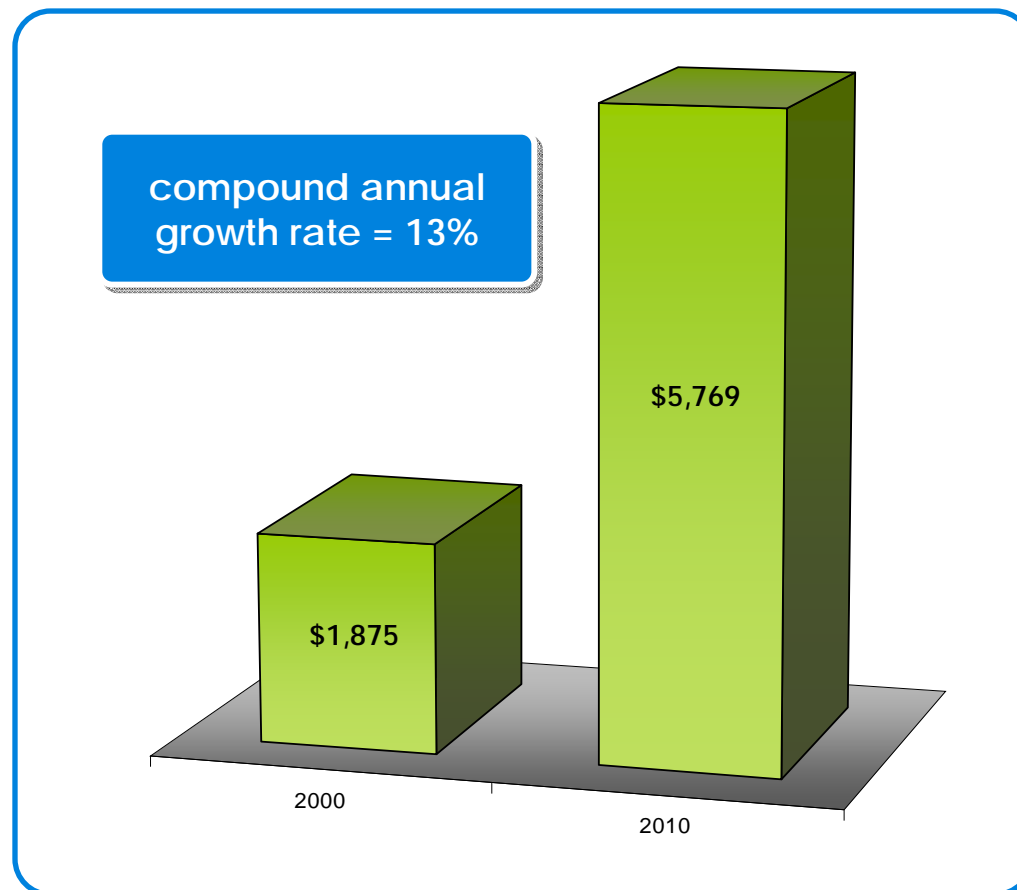
Source: ©2010 California HealthCare Foundation

In 2020, \$39,000
could ...

- purchase a comprehensive family insurance policy from Blue Shield
- buy 6 years of a household's groceries
- be 1.6 times higher than the median income for BRIC countries
- buy the newest version of a Toyota Prius

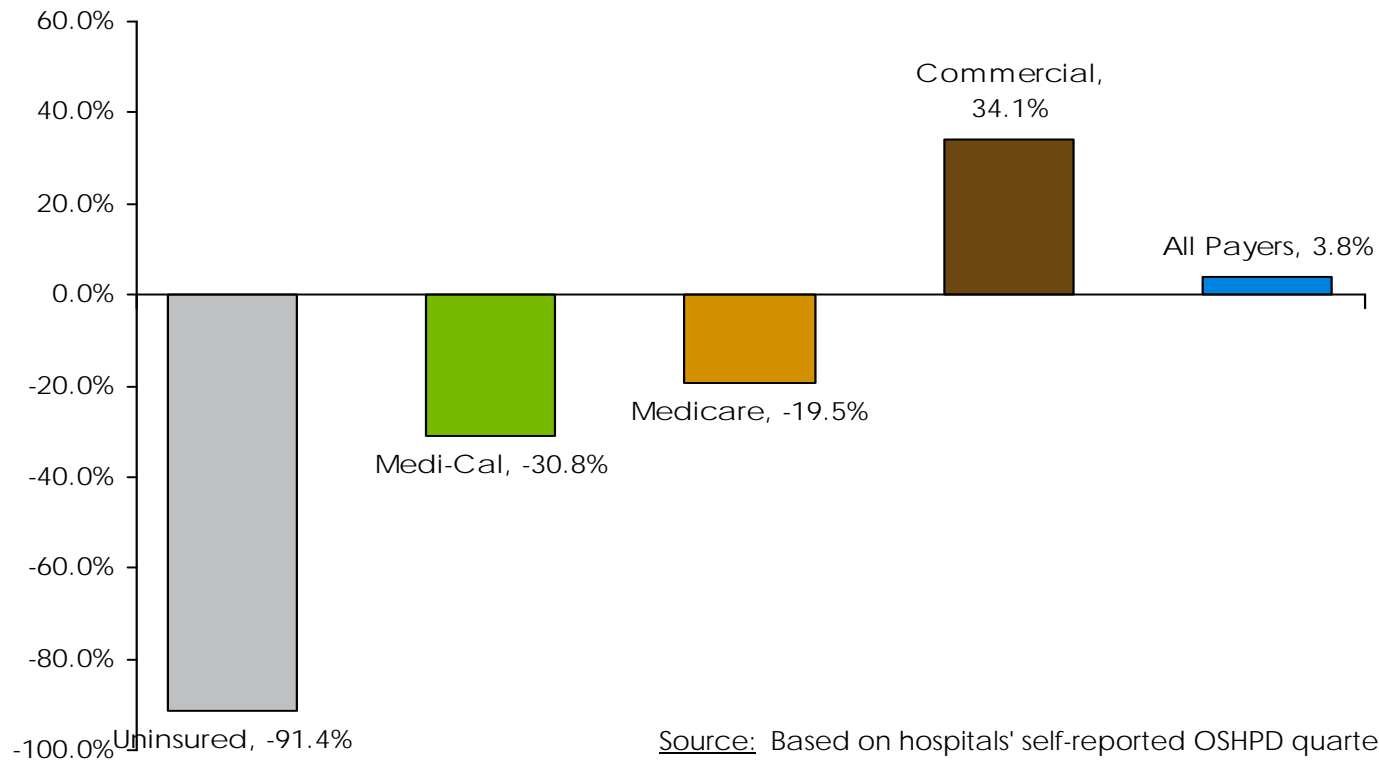
what drives costs?

average cost per acute inpatient bed day in California



what drives costs (continued)?

operating margin by payer for hospitals in the blue shield of california network



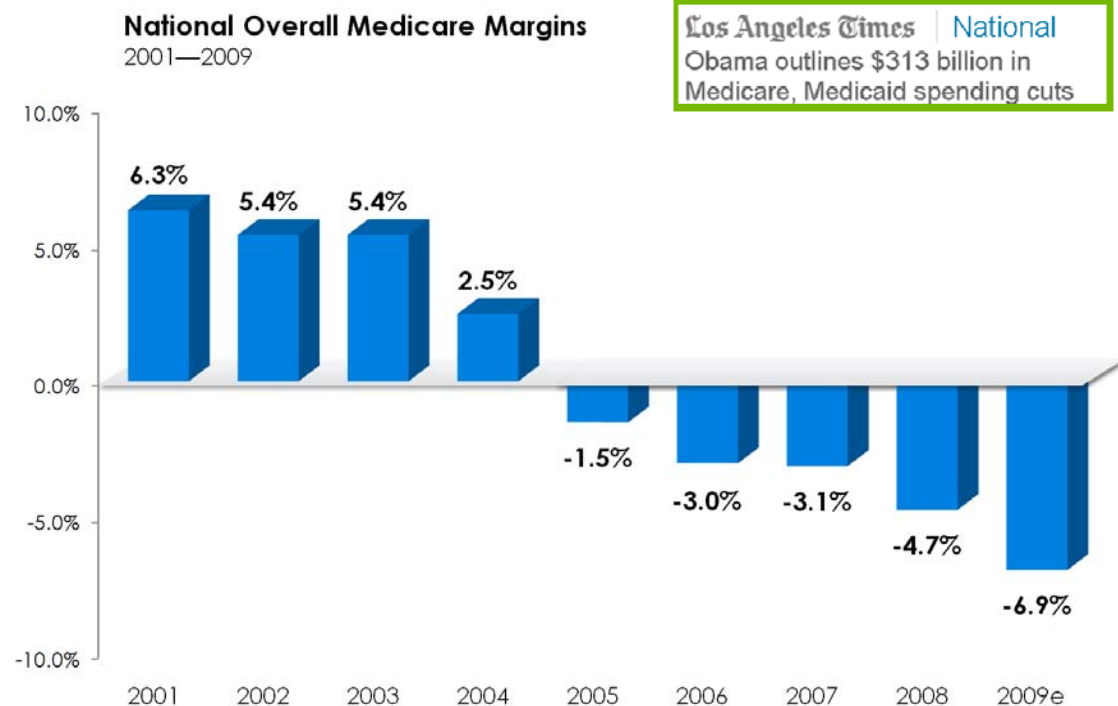
Source: Based on hospitals' self-reported OSHPD quarterly data from July 2009 – June 2010 for Blue Shield's network facilities only

what drives costs (continued)?

hospital costs/profits

- nearly \$10 billion in under reimbursement from medicare and medicaid in CA
- increasing number of uninsured
- infrastructure upgrades
- nurse staffing ratios
- costs of new technologies

THE WALL STREET JOURNAL | POLITICS
JANUARY 28, 2009
States Take Aim At Medicaid



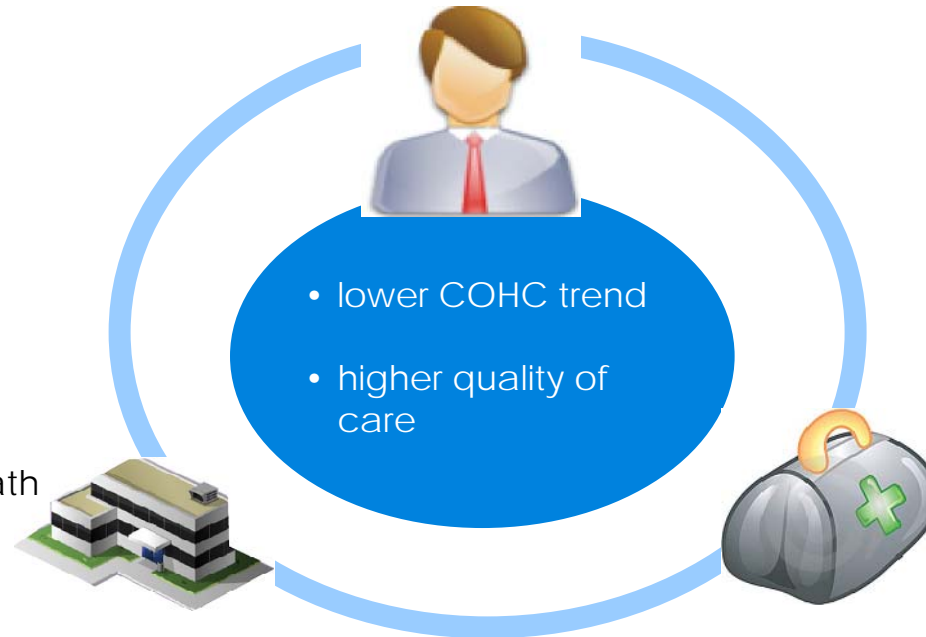
source: California Healthcare Foundation: Milliman study on the California Cost Shift Problem

potential solutions

future model

motivated member makes better health and treatment choices

engaged employer promotes preventive care and healthy behaviors (path of least resistance)



high performing provider delivers cost effective, quality care across the continuum from well to sick

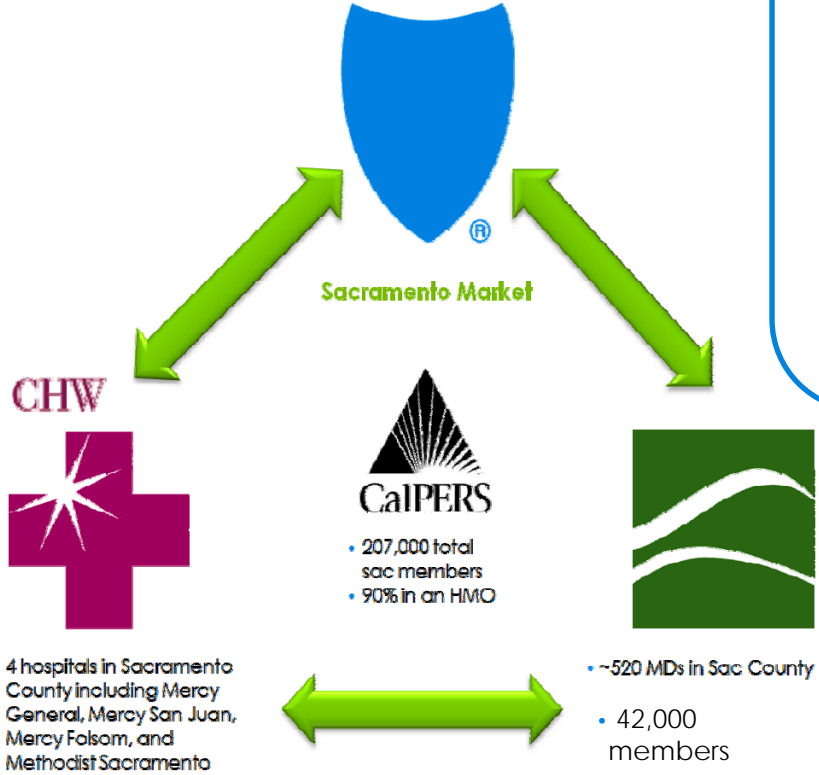
what is an accountable care organization (ACO)?

accountability is the acknowledgment and assumption of responsibility . . . and encompassing the obligation to report, explain and be answerable for resulting consequences.*

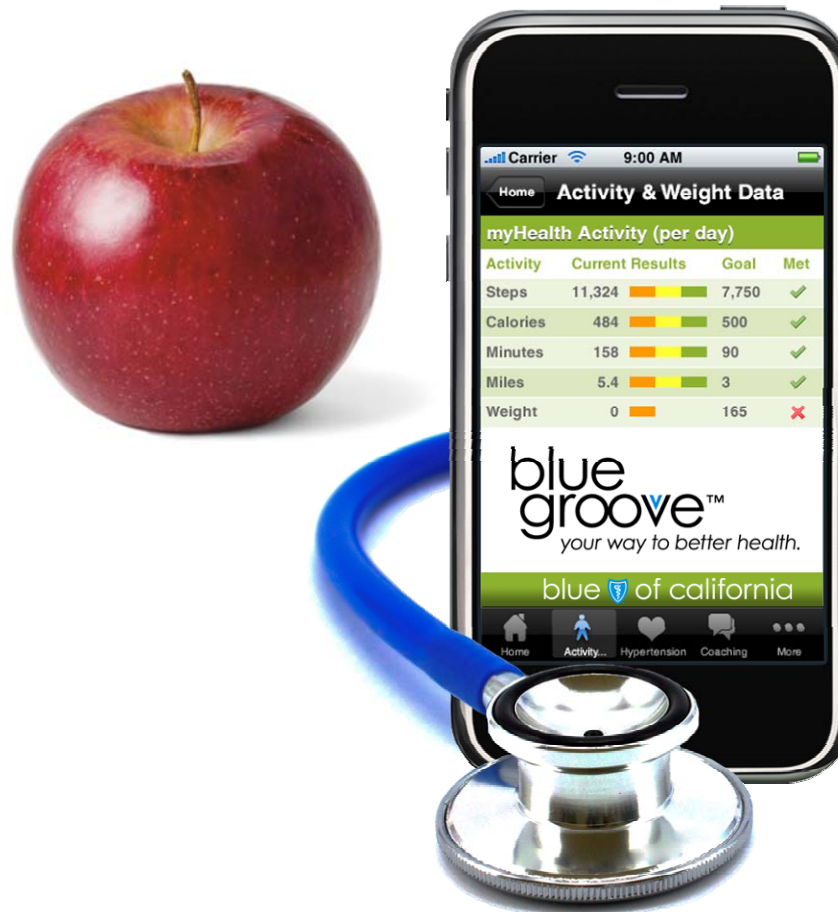
blue shield's accountable care experience

Blue Shield is already driving change through accountability transparency and aligned incentives

- 15% Inpatient readmissions
- 0.53 Average length of day stay for inpatient admissions
- 15% Inpatient days per thousand
- 50% Inpatient stays per thousand of 20 or more days



the next generation product



introducing blue groove

| | basic groove | main groove | care+ groove |
|-------------------------|--|--|---|
| description | lean PPO | narrow HMO with restricted PPO wrap | narrow HMO |
| benefits unique to path | <ul style="list-style-type: none"> • broad PPO network • existing Blue Shield health and wellness programs | <ul style="list-style-type: none"> • richer benefits and lower OOP than base • \$500 financial incentive • interactive platform for personalized engagement | <ul style="list-style-type: none"> • richer benefits and lower OOP than wellness • coordinated and integrated care across continuum |
| value to member | broader network for those who want to pay more | financial recognition and support for a healthy lifestyle | best in class support to manage care |

blue shield's 2% pledge

in any year that our net income exceeds 2% of revenue, we will give back the excess to customers and the community

what can employers do?

- demand accountability for affordability from your health plan and providers
 - transparency on cost and quality
 - zero tolerance for “revenue only” solutions to financial challenges
 - “non-incremental” solutions to the affordability crisis
- support and pursue prudent, aggressive experimentation
- create a “path of least resistance” to health for employees
- make your voice heard politically on health issues