Health Care Costs:
THE CHALLENGE WE ALL FACE

Why costs are rising and how we can find solutions together
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FACING THE CHALLENGE

It happens to North Carolina business owners and families each year. A letter comes in the mail saying their health insurance costs are going up. And the first thing they want to know is why.

In some ways, the answer is simple. Health care services cost more than they once did and we are using them at an increased rate. Medical breakthroughs cost money, as do the unhealthy lifestyles of many North Carolinians. Add in the increasing health care needs of an aging population. And there’s no sign that these pressures are likely to ease up in the near future.

This book shares some eye-opening facts about the rising cost of health care. The good news is that there are some common-sense actions all of us can take to improve the situation.
ISN’T EVERYTHING MORE EXPENSIVE NOW?

While it’s true that most everything costs more now than it once did, health care is in a class by itself. Spending on health care currently accounts for about 15 percent of the nation’s Gross Domestic Product (GDP). The Centers for Medicare and Medicaid Services (CMS) projects that by 2014 health care spending alone will account for 18.7 percent of GDP.*

What does this all mean for the average person? Consider this: If health insurance premiums grow by eight percent per year during the next decade, the annual family policy that now costs $10,000 will cost $21,600.** Since it is very unlikely that wages will grow that fast, Americans will find health care increasingly unaffordable if present trends continue.

* Employee Benefit Research Institute estimates from Centers for Medicare and Medicaid Services and U.S. Department of Commerce.
** Uwe Reinhardt, Ph.D., Princeton University, A Primer for Journalists on Reforming American Health Care: Proposals in the Presidential Campaign.

Health care costs keep rising*

* National Health Expenditures Per Capita. Centers for Medicare and Medicaid Services, Office of the Actuary.
HIGH TECH, HIGH COST

A key issue in health care costs is the money spent on new technologies such as diagnostic imaging. Imaging costs are growing at a dizzying rate in large part because we use so many of these services.

Rates of CT scans and MRI usage among Blue Cross and Blue Shield of North Carolina members rose approximately 160 percent from 1999 through 2004.* This is significant because of how costly these tests can be. The cost of CT scans provided to our members ranges from $593 to $1,453.**

Factors at work

VARIATION – Physicians don’t always agree on standards for when to order high-tech images, so the rate at which doctors order such tests varies considerably from state to state, city to city, and doctor to doctor.

DUPlication – When patients are transferred from one facility or doctor to another, the same imaging test is often ordered a second time. Patients often undergo testing with both older technologies like x-rays or CT scans and with higher-tech options like MRIs and PET scans.

PROLIFERATION – As the number of MRI machines increases, so do the number of tests performed. In the health care arena, supply often creates demand.

SHELTERED NATION – For a long time, consumers paid only a small portion of imaging fees, so consumer desire for the “latest test” hasn’t yet been tempered by the impact of increased costs.

LACK OF EVALUATION – There is no generally accepted process for critically evaluating the cost effectiveness of new equipment and technologies, so we may be spending a lot of money on technologies that ultimately offer little or no benefit over less expensive options.

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** BCBSNC claims data, 2004.
PREMIUM ANXIETY

When insurance premiums go up, a lot of people assume that company profits must be the reason. But as you’ll see on the opposite page, the greatest portion of a Blue Cross and Blue Shield of North Carolina premium goes to pay for health care services, just as it should. Much of the remainder goes to providing customer service and building the infrastructure needed to pay claims and remain financially stable to protect our members. Company profits are only a small part of the picture.

On the following pages, you will find detailed information on trends in health care costs. You’ll get a clear picture of what is really driving insurance premium increases: cost increases across the spectrum of health care.

Where the premium goes*

* BCBSNC 2004 data, excluding self-funded business.
** BCBSNC earnings, add to reserves, strengthening the company’s financial stability.

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician and other professional fees</td>
<td>34¢</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>15¢</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>14¢</td>
</tr>
<tr>
<td>Earnings**</td>
<td>4¢</td>
</tr>
<tr>
<td>Outpatient facilities</td>
<td>17¢</td>
</tr>
<tr>
<td>INCOME TAXES</td>
<td>2¢</td>
</tr>
<tr>
<td>Hospital services</td>
<td>14¢</td>
</tr>
</tbody>
</table>

INCLUDES:
- Customer Service
- Claims Processing
- Sales and Commissions
- Technology
- Support Functions
When it comes to health care costs, it’s important to compare apples to apples. The national data here and on the following pages are from the Milliman USA Health Cost Index, which compares medical costs nationwide in a given year to costs for the same services in 1988. A value of 1.0 means that costs have not changed. A value of 2.0 means that costs have doubled, etc.

*Milliman USA Health Cost Index ($0 deductible).
STRONG MEDICINE

Spending on prescription medicines continues to be a fast-growing cost factor. In fact, from 1990 to 2004, Blue Cross and Blue Shield of North Carolina found that drug costs per member rose 530 percent.* What's driving that increase?

New drugs that replace existing drugs may or may not be significantly more effective – but they're generally more expensive, usually dramatically more. Advertising may also increase the demand for some costly brand-name medicines.

Even more significant, the volume of drugs being purchased has increased substantially. People simply take more pills to treat more conditions than ever before. Some drugs do prevent hospitalizations or serious health complications, but not all new and expensive drugs directly reduce other health care costs.


Drug costs increase more than sixfold*

*Milliman USA Health Cost Index ($0 deductible)
THE DOCTOR IS IN

It's no exaggeration to say the cost of physician services are rising. The cost per doctor visit for Blue Cross and Blue Shield of North Carolina members is 131 percent higher than in 1990.*

What's more, the average number of doctor visits per member has increased 40 percent in the last 10 years.**

As the population ages, more people are going to the doctor than ever before. Unfortunately, it's not necessarily for preventive care: only one in seven of our members actually access preventive services.***

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** BCBSNC claims data, 2004.

* Milliman USA Health Cost Index ($0 deductible).
A TRIP TO THE HOSPITAL

Hospital costs continue to rise every year. While only a small percentage of patients require inpatient care, the intensive services provided in a hospital setting can be quite expensive. The average cost of hospitalizing a Blue Cross and Blue Shield of North Carolina member has risen 55 percent in the last five years.* An average non-maternity hospital stay for one of our members now costs approximately $9,400.**

Part of the problem is that hospitals face reduced payments for federal government programs like Medicare and Medicaid. Those payments often don’t cover the cost of care, so the cost sometimes gets shifted to insured patients. Hospitals are also saddled with the cost of indigent care. The result: insured patients pay more for health care.


* Milliman USA Health Cost Index ($0 deductible).
MORE OUTPATIENT CARE

Advances in technology and procedures now allow many conditions to be treated in ambulatory clinics or same-day surgery centers. This can be more convenient for patients and often costs less than an average hospital stay. But this convenience may be part of the reason the rate of these procedures is increasing so fast.

Of course, some of the costs that previously would have been incurred in hospitals have shifted to costs from outpatient procedures. However, from 2000 to 2004, inpatient costs for Blue Cross and Blue Shield of North Carolina members rose 55 percent while outpatient costs rose 119 percent.*

STICKER SHOCK

It’s not surprising that we have trouble understanding why health care costs are rising. Just look at the bills. They can be very confusing, to say the least.

The amount the doctor bills the insurer isn’t usually what he or she will actually get paid. Patients often get multiple bills for a single event, such as a hospital stay. And up until recently, the portion that comes out of a consumer’s own pocket has been a small percentage of the overall cost. Consumers have paid a $10 co-payment for so long, they’ve been insulated from the fact that a brand-name drug really costs hundreds of dollars.

Sometimes we overestimate what preventive care costs. Most of the time though, we tend to underestimate how expensive health care services really are. Take a look at how wide the reality gap can be.

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The cost disconnect*

<table>
<thead>
<tr>
<th>SERVICE/ITEM</th>
<th>WHAT PEOPLE THOUGHT IT COST ON AVERAGE</th>
<th>WHAT IT REALLY COSTS ON AVERAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blood Chemistry Test</td>
<td>$143</td>
<td>$300</td>
</tr>
<tr>
<td>Day/Night in Hospital</td>
<td>$1,058</td>
<td>$3,600</td>
</tr>
<tr>
<td>One Week in Nursing Home</td>
<td>$1,918</td>
<td>$1,250</td>
</tr>
<tr>
<td>Primary Care Visit</td>
<td>$97</td>
<td>$80</td>
</tr>
<tr>
<td>Birth Via C-Section</td>
<td>$6,145</td>
<td>$13,500</td>
</tr>
</tbody>
</table>

* Wall Street Journal Online Interactive Polls, July 2004

[20] [21]
PREVENTION: KEY TO COST CONTROL

So how do we turn this situation around? In a word: prevention. There are steps each of us can take to help prevent the development of illnesses that are difficult and expensive to treat.

Sounds logical, right? But many people don’t follow common-sense guidelines on preventive health. To help lead the way, Blue Cross and Blue Shield of North Carolina has developed Preventive Care Guidelines – standards of care tailored to a patient’s age, gender and health status. These services include screenings, physical examinations and prenatal care.

The following checklist describes just a few of these services. What is most important varies with a patient’s age and health status. We encourage our members to see their physicians to be sure they’re up to date for preventive services.

Prevention checklist

Are you up to date on all these preventive services?

✔ Regular physical exam
✔ Tobacco screening and counseling
✔ Screening for breast, cervical, prostate and colon cancer
✔ Cholesterol check and management
✔ Childhood immunizations
✔ Regular weight checks by doctor
✔ Diet and exercise counseling
✔ Vision screening and hearing tests
✔ Blood pressure check and management
✔ Flu shot
ADDRESSING EXISTING ILLNESS

Another key strategy for reining in health care costs is to manage common diseases and health issues more effectively. At Blue Cross and Blue Shield of North Carolina, we recognize that our members’ personal decisions are a driving force in health care cost trends. We work closely with members to help influence these decisions in time to make a positive difference in the cost and quality of the health care services they receive.

We call these programs Member Health Partnerships – custom-tailored educational resources, individualized support and self-management tools designed to move members down the road to better health.

Programs for our members*

- Asthma
- Diabetes
- Fibromyalgia
- Healthy Lifestyle ChoicesSM (weight management)
- Heart disease
- Migraine
- Pregnancy (prenatal care)
- Tobacco Free (smoking cessation)

* Member Health Partnerships are available to select plans only. Enrollment may be contingent upon meeting eligibility requirements.
A HARD LOOK AT LIFESTYLE

Sedentary jobs. High-calorie diets. Leisure time spent in front of the TV or on a computer. The consequence? Unprecedented numbers of North Carolinians are overweight or obese.

Being obese predisposes people to serious diseases such as diabetes, heart disease and stroke. Our research indicates that obesity in Blue Cross and Blue Shield of North Carolina’s population is responsible for approximately $83 million in costs for 2003 alone. In fact, medical costs per member are 29.2 percent higher for obese members.*

Obesity may be the public health crisis of the 21st century. But this crisis also presents us a tremendous opportunity to improve health and control costs. We’re working hard to take advantage of this opportunity with programs aimed at fostering healthier lifestyles.**

** Some programs are available to select plans only. Enrollment may be contingent on meeting eligibility requirements.

Obesity drives up costs per member*

<table>
<thead>
<tr>
<th>Health care costs</th>
<th>Obese</th>
<th>Overweight</th>
<th>Normal Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical cost per member</td>
<td>$204</td>
<td>$194</td>
<td>$184</td>
</tr>
<tr>
<td>Drug cost per member</td>
<td>$168</td>
<td>$155</td>
<td>$156</td>
</tr>
</tbody>
</table>

Changes for better health

HEALTHY LIFESTYLE CHOICES™ — Covers doctor visits specifically to discuss weight issues. Provides access to nutritionists. Covers weight loss drugs where medically appropriate. Identifies Centers of Excellence for bariatric surgery for the morbidly obese.

FIT TOGETHER — We’re partnering with the NC Health and Wellness Trust Fund in a three-year, statewide campaign to help communities develop healthier environments. This can mean building more sidewalks or greenways, or convincing schools and employers to offer additional opportunities for physical activity.

BLUE POINTS™ — Gives eligible members a reason to get and stay physically active. Even walking, gardening or washing the car earns members Blue Points and prizes.

ALT MED BLUE™ — Offers members a discount of up to 30 percent on services like acupuncture, fitness centers, athletic clubs, health spas, stress management and nutrition counseling.

BE ACTIVE NORTH CAROLINA — A nonprofit organization, supported by BCBSNC and other funders, dedicated to increasing physical activity for North Carolinians. Be Active North Carolina has programs for a variety of age groups. For more information, please visit: www.beactivenc.org.
WE’RE ALL IN THIS TOGETHER

Given all the trends detailed in this book, holding down the cost of health care may seem like an impossible task. But controlling health care costs is a challenge we can meet if all stakeholders work together by taking simple, practical actions:

• **Consumers** can take charge of their health by knowing where their money goes, following through on preventive screenings and committing to a healthier lifestyle.

• **Employers** can educate employees about how their benefits work and provide a healthier workplace. Something as simple as adding a fresh coat of paint and better lighting in stairwells can encourage workers to take the stairs rather than riding elevators.

• **Health Care Professionals** can consider the cost impact of treatment decisions on their patients, for example, by writing prescriptions that allow generic substitution. Physicians, particularly primary care providers, can counsel patients on how lifestyle impacts health.

• **Policymakers** can consider the complex nature of our health care system and how policy changes can invite unintended consequences. For example, reimbursement levels for Medicare and Medicaid can impact what doctors and hospitals charge privately insured workers.
DOING OUR PART

So what are we doing to help? Blue Cross and Blue Shield of North Carolina is implementing cost-conscious strategies on many fronts, all aimed at helping our members become more informed health care consumers.

New programs address emerging health care issues:
• **Member Health PartnershipsSM** – provides educational resources, individualized support and self-management tools that allow members to take control of their health.
• **Healthy Lifestyle ChoicesSM** – helps members achieve a healthier weight and lifestyle, reducing risks of developing chronic illnesses like diabetes and hypertension.
• **EHP Blue – Employer Health PartnershipsSM** helps employers assess the health of their workforce and manage key health issues.

Online tools educate members on health care costs:
• **Health Care Cost EstimatorSM** – helps members make more informed choices by providing the relative costs of common services and treatments.
• **Hospital Comparison Tool** – helps members partner with their doctor to select the hospital that’s right for them.
• **PharmaAdvisor™** – assists members in comparing drug options and the relative costs of each.

We’ll continue to look for more ways to make health care less of a burden and more of an advantage. If we all do our part, we can help keep health care affordable.
Though the problem is complex, we’re not pessimistic. Our current health care system has evolved over many years, so improvement won’t happen overnight. Creating workable solutions to the steady increase in health care costs will take hard work and collaborative effort. But it’s a goal we’re committed to achieving all the same. At Blue Cross and Blue Shield of North Carolina, we’re confident that by working together, we can do it.