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Medical Costs Drive Health Insurance Premiums

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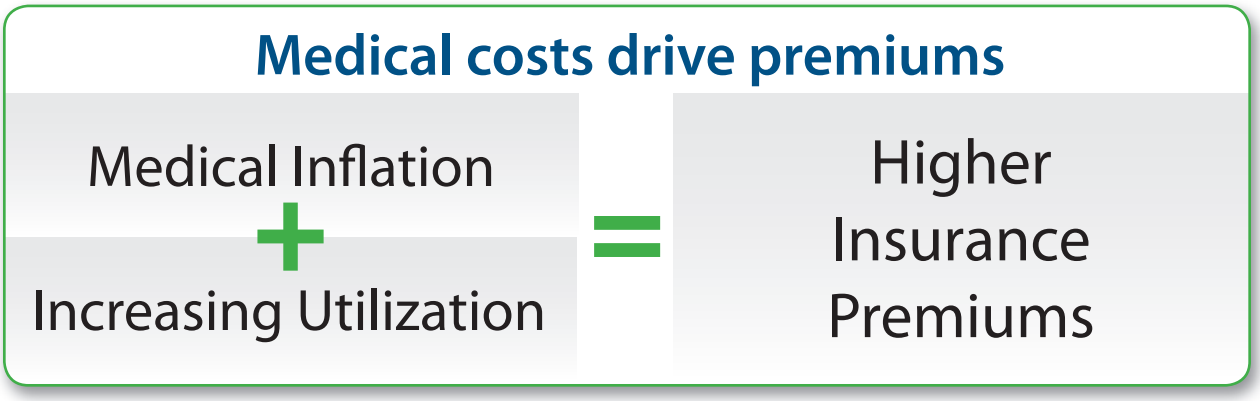
The news media, blogs, pundits and policymakers are rife with stories about significant health insurance premium increases and their impact on businesses, consumers and the economy. These stories offer many valid points but what they tend not to recognize is the primary underlying cause of premium increases – the growing cost and utilization of health care services.



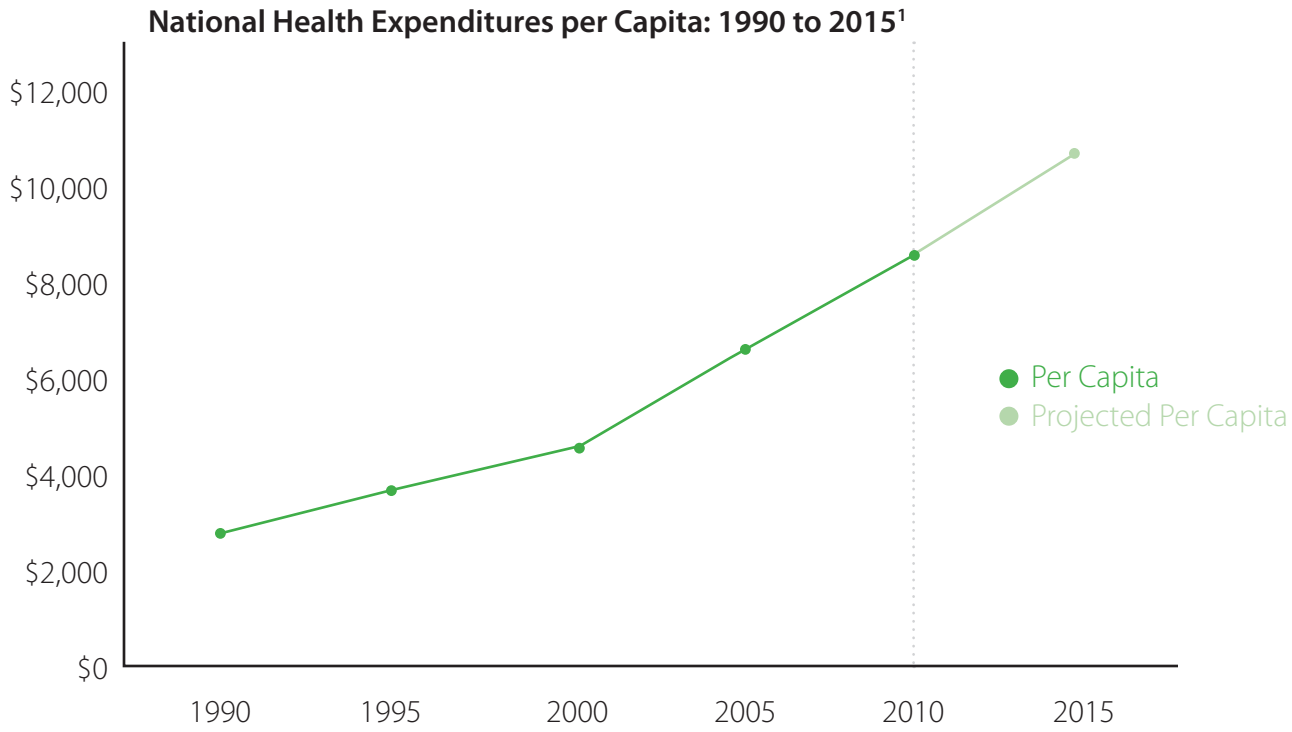
Blue Cross and Blue Shield of Illinois (BCBSIL) understands why Americans may be frustrated by premium increases. But it is difficult if not impossible to reduce the rate of growth in health insurance premiums when medical costs continue to increase so rapidly. This paper presents information about the multitude of underlying drivers of medical costs across the nation and in Illinois, and points to the future of the health system.

What does Medical Care Cost in the U.S. and Why is it Increasing so Rapidly?

To reduce medical costs, it is important to understand what drives them:

- **Medical inflation.** The cost of a single unit of care, from an MRI or the delivery of a baby to an emergency room visit – has been increasing significantly faster than inflation throughout the economy as a whole.
- **Increased utilization.** Americans utilize more and more medical services each year.
- **New technologies.** New and more expensive therapeutic and diagnostic technologies, as well as devices and pharmaceuticals may be used instead of older, less expensive ones that may be as effective.
- **Unhealthy lifestyles.** Rapidly increasing "waist lines" and growth in other unhealthy lifestyles have lead to greater incidence of chronic and expensive conditions, ranging from heart disease to diabetes. As a result, the severity of Americans' medical conditions on average is increasing, as is the intensity of the treatment.
- **Cost shifting.** Providers "cost shift" to cover financial losses from care for patients in government programs that pay less than it costs providers to deliver care.

National Health Care Costs



The U.S. spends more on health care than any other nation.[2] In total, medical costs nationally are approaching $2.4 trillion annually — nearly $8,000 a year for every man, woman and child in America. In general, federal government data confirms that rising medical costs are driven by increased spending on hospital care, physician services and prescription drugs. The government data shows that nationally:

- Hospital spending growth is projected to have accelerated from 4.5% in 2008 to 5.9% in 2009, as spending reached $760.6 billion.
- Spending growth for physician and clinical services is expected to have accelerated to 6.3% in 2009, up from 5.0% in 2008, with expenditures having reached $527.6 billion.
- Prescription drug spending is expected to have grown 5.2% in 2009, an acceleration of 2.0 percentage points from 2008, and to have reached $246.3 billion.[3]

These figures do not include increases in utilization and the impact of unhealthy lifestyles, which also are significant drivers of overall medical costs. Treating patients with one or more chronic diseases costs $1.65 trillion per year, which is nearly identical to the nation's federal deficit in 2009.[4]

[1]CMS/PricewaterhouseCoopers
[2]Healthcare Trends in America: A Reference Guide from BCBSA (2009 Edition).
[3]Health Spending Projections Through 2019: The Recession's Impact Continues, Health Affairs, *http://content.healthaffairs.org/cgi/content/abstract/hlthaff.2009.1074*
[4]The Partnership to Fight Chronic Disease (PFCD), *http://www.fightchronicdisease.org/*

National and Unique Factors in Illinois have Caused Local Medical Costs to Increase Significantly

Average billed charges for BCBSIL members (June 2010) for the following services	
Hospital stay	$12,700
Emergency room visit	$3,025
C-Section OR natural birth	$13,600
Shoulder MRI	$1,400

Like the nation as a whole, Illinois faces similar upward pressure on medical costs. However, additional factors make the situation here unique, including:

- Illinois has 47 coverage mandates, more than most other states. It is important to understand that each mandate adds to the price of health insurance premiums.
- A recent U.S. government report on medical imaging found that in 2008 Illinois hospitals provided double chest CT scans twice as often as hospitals did nationally[5].
- Research by the Dartmouth Medical School in New Hampshire showed that medical care for Chicago area Medicare patients costs 25% more than the national average[6].
- In Chicago, chronically ill patients return to the hospital after they are discharged more often than in any other places[6].
- Illinois has the 27th highest rate of adult obesity in the nation, at 25.9%, and the 10th highest rate of overweight among youth ages 10 to 17, at 34.9% [7].

Unhealthy Lifestyles Cause Rapid Rise in Chronic Conditions

Lifestyles also have a significant impact on health insurance premiums. In fact, five of the top 10 claims BCBSIL pays are related to obesity. In recent years, the proportion of BCBSIL members with chronic and serious conditions has increased greatly. According to BCBSIL claims data, 2004 to 2008:

- The diagnosis of type 2 diabetes among members increased by about 14% and charges for services increased by 34%, from about $22,000 to $29,000.
- The diagnosis of atherosclerosis among members increased by about 17% and charges for services increased by 29% from about $51,000 to $65,000.
- In addition, though not related to obesity, the diagnosis of asthma among members increased by 12% and charges for services increased by 53% from about $11,000 to $17,000 during this period.

[5]"New government report raises questions about CT scans at Illinois hospitals," Chicago Tribune, July 11, 2010.
[6]"Chicago-area hospitals sacrifice revenue as they prepare for health care reform," Crain's Chicago Business, July 12, 2010.
[7] "F as in Fat: How Obesity Policies are Failing in America," Trust For America's Health and the Robert Wood Johnson Foundation, 2009.

Number of Medical Claims and Costs Continue to Climb

The following information shows increases in BCBSIL's in-state medical claims costs from 2008 to 2009. The charts below include data from BCBSIL's PPO, point-of-service and traditional fee-for-service plans.

From 2008 to 2009, growth in spending across all of BCBSIL's medical claims categories increased significantly, with outpatient facility care increasing the most rapidly.

Claim Category	Per Member Per Month (PMPM)*
Inpatient (facility)	+7.1%
Outpatient (facility)	+12.6%
Professional	+8.4%
Rx	+6.6%

* Per Member Per Month (PMPM) is the average amount of dollars spent for each enrollee, each month.

Major examples of cost increases by claim type include:

Type of Claim	Per Member Per Month (PMPM)*
CT Scan	+13%
ER visits	+11.5%
Inpatient surgery (56% of inpatient PMPM)	+9.1%
MRI	+15.3%
Outpatient lab	+13.9%
Outpatient surgery (ambulatory surgery center)	+10.2%
Outpatient surgery (hospital)	+11.8%
Professional evaluation and management	+7.6%
Professional surgery	+5.6%

Prescription Medication Costs and Claims Increase Rapidly

From 2008 to 2009, inflation and the increasing use of brand name and specialty pharmacy medications caused significant increases in BCBSIL's overall pharmacy claims costs. Total pharmacy claims grew by 2.3% from 2008 to 2009. The following information is based on BCBSIL claims data from year end 2009:

Brand Name Medications

- The average cost of a one-month prescription for a brand name medication was $146.89 – a 10.3% increase from 2008.
- The overall rate of inflation among brand-name prescription medications was 9.7%.
- Brand name prescription medications accounted for 37.4% of all BCBSIL prescription medication claims and, at the same time, 81% of all prescription medication costs.

Specialty Medications

"Specialty medications" are prescribed for complex and ongoing medical conditions, ranging from multiple sclerosis and rheumatoid arthritis to hepatitis. In addition to being more expensive, specialty medications often are more difficult to use, requiring patient and caregiver education about how to properly store and administer them. The following is based on BCBSIL data from year end 2009:

- The average cost of a one-month supply of a specialty medication was $2,083.75.
- The rate of inflation for specialty medications was 8.4%. At the same time, utilization among our members increased by 8.9%.
- Specialty medications accounted for only 1.3% of all prescription medication claims but at the same time 17.3% of all prescription medication costs.

Growth in PMPM in specific drug classes from 2008 to 2009	
Class	**Per Member Per Month (PMPM)***
ADHD	+19.5%
Anticoagulants	+13.4%
Antipsychotics	+14.7%
Asthma/COPD	+11.3%
Diabetes	+10.4%
Multiple Sclerosis	+23.2%

Percentage increase includes both brand name and generic prescription medications in each class.

Growth in PMPM costs of representative prescription medications from 2008 to 2009	
Name	**Per Member Per Month (PMPM)***
Abilify® (antipsychotic)	+47.4%
Adderall XR®	+29.4%
Copaxone® (multiple sclerosis)	+40%
Crestor® (cholesterol)	+35.9%
Humira® (rheumatoid arthritis)	+36.6%
Nexium® (heartburn)	+10.3%
Plavix® (blood clotting)	+15.7%
ProAir HFA® (asthma)	+64%
Rebif® (multiple sclerosis)	+22.1%

All medications listed above are brand name products.

In addition, the overall use of statins – medications used to reduce cholesterol levels – increased by 10%, and the use of antivirals increased by 20%.

Cost Shifting due to Uninsured, Public Payers

Cost shifting by providers to cover financial losses from care for patients in government programs ultimately increases commercial health insurance premiums. In addition, given Illinois' financial situation, some payments to providers have been delayed.

The Future Starts Now

> Now more than ever – businesses, consumers, policymakers, physicians, hospitals, pharmaceutical companies, medical device manufacturers and health insurers – must work together to enhance the quality of care and control growth in medical costs. This is a great challenge, but one we must meet if we are going to manage the high cost of health care here in Illinois and across the country.
>
> Karen Atwood, President
> Blue Cross and Blue Shield of Illinois

The Affordable Care Act already is having a significant impact on the health care system and marketplace. The wave of change will crest in 2014 when the Affordable Care Act goes into full effect and as many as 31 million currently uninsured Americans gain access to the health system as Medicaid expands and health insurance exchanges go live[8].

Getting from 2010 to 2014 will require new approaches and innovative thinking that will change how consumers, providers, health insurers and others approach access to and payment for services. Reining in costs in a smart way that enhances quality and accountability and reduces growth in costs is a top priority for BCBSIL, which already is working collaboratively with health care providers and other stakeholders to prepare for the Affordable Care Act's full implementation.

BCBSIL believes that Accountable Care Organizations (ACO), in which primary care physicians coordinate patient care, help to enhance quality and reduce growth in costs. With 85,000 of its preferred provider organization (PPO) members already participating, BCBSIL's medical homes are reducing gaps in medical care among some high-risk patient populations. Costs for BCBSIL's health maintenance organizations (HMO) – which are prime examples of ACOs – are about 20% less than BCBSIL's PPO. With nearly 825,000 members, the HMOs include programs that help providers help members manage their chronic conditions, including diabetes and asthma. "Global" payment methodologies – using single, annual payments to providers per BCBSIL member per year to cover all of their medical costs, are likely to expand. Medical practices participating in HMOs are paid on a global basis.

In addition, BCBSIL is bringing to the market new ways to impact costs and quality in the form of "episode" payments for services. Episode payments mean that providers receive a single payment for an episode of care – from beginning to end – rather than get paid for individual services as they are rendered. In addition to promoting quality, this type of arrangement motivates providers to reduce unnecessary utilization, especially costly re-hospitalizations, as well as reduce unwarranted variations in care. BCBSIL expects that by 2011, as many as 10 percent of its members will receive their care through providers who are paid by episode of care.

For more information, visit bcbsil.com.

[8]Congressional Budget Office and Committee on Taxation, Cost Estimate, March 20, 2010.