



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

2008



Medical Cost Reference Guide

**Facts and Trends Driving
Healthcare Costs, Quality and Access**

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Dear Colleague:

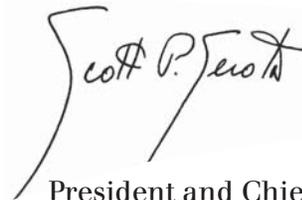
The United States continues to spend more on healthcare than other nations, but there are some positive indicators on the horizon.

Healthcare spending as a percent of Gross Domestic Product (GDP) is 16 percent in the U.S. and rises to 19 percent of total national government spending. As the healthcare leaders in the U.S., Blue Cross and Blue Shield companies continue to aggressively manage healthcare costs in providing high value healthcare that is quality-driven, affordable and accessible. For the fourth year in a row, growth in health insurance premiums declined in 2007 and the rate of growth is currently at its lowest level in seven years.

There are also positive indicators in other key areas. Growth in consumer engagement – measured by enrollment in consumer driven health plans (CDHPs), utilization of health information, consumer health tools and health management programs to make more informed healthcare decisions – are all increasing. While these bode well for the future, the nation still must work aggressively to better manage overall healthcare costs, which are rapidly approaching \$2.3 trillion.

Now in its sixth year of publication, the Medical Cost Reference Guide provides comprehensive information on healthcare economics, utilization and management trends from credible, peer-reviewed sources. We hope the *2008 Medical Cost Reference Guide* continues to meet the needs of all healthcare stakeholders.

Yours in good health,



President and Chief Executive Officer
Blue Cross and Blue Shield Association

Introduction

New to this year's edition, the *2008 Medical Cost Reference Guide* features a section on Healthcare Financing Trends that includes information on how U.S. health spending compares to other countries. It also provides health spending and utilization information at the global and national levels, with specifics on public and private-sector healthcare spending and utilization.

Following that initial section, the Medical Cost Reference Guide is organized into several key areas:

- Health Insurance Coverage – Information on employer-based and government health insurance trends, as well as trends on individual health plan purchases and the uninsured.
- Engaging and Empowering Consumers – Information on healthcare costs, utilization of health information, tools and programs geared to help consumers make better healthcare decisions and live healthier lives.

- Collaborating with Providers – Information on hospitals, physicians, nurses and prescription drugs examining purchasing trends and provider costs.
- Expanding Access to Quality and Affordable Care – Information on programs and technologies that can impact rising healthcare costs.

The *Medical Cost Reference Guide* also provides comprehensive information on other health statistics and healthcare cost and utilization data.

A CD-ROM is included in the back of the *Medical Cost Reference Guide* with an interactive PDF version for access to PowerPoint slides of each table.

For more information about the Blue Cross and Blue Shield companies and the *2008 Medical Cost Reference Guide*, visit www.bcbs.com.

Healthcare Financing Trends

Section 1

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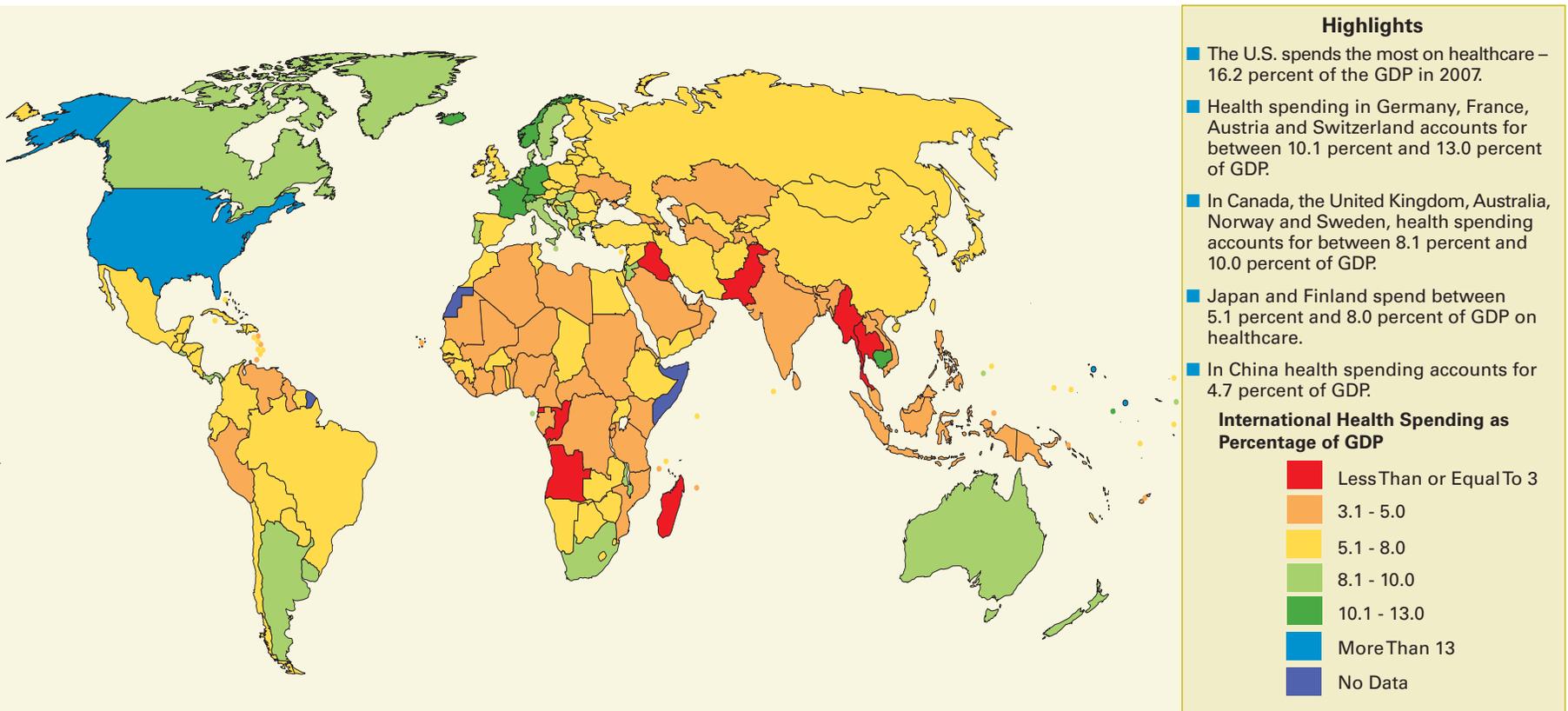
Health expenditures in the United States continue to grow and the U.S. spends more on healthcare than any other nation.

Healthcare also continues to be a major part of the economy. Health spending is expected to grow over the next several years, with National Health Expenditure rapidly approaching \$2.3 trillion. The federal government contributed 46 percent of healthcare payments in 2006. Although the government's overall contribution to healthcare spending has been rising, the percentage the government contributes is expected to be about the same in 2007 as it was in 2006.

Hospitals, physicians and prescription drugs continued to be the top three healthcare spending areas for both public and private funders. Three-quarters of the private health insurance dollar goes toward hospitals, physician and clinical services, and prescription drugs. While still increasing, out-of-pocket healthcare spending by Americans continues to be lower than most other developed countries. In addition, out-of-pocket payments are being distributed across more areas today, including prescription drugs and dental services.

International Health Spending as a Percentage of Gross Domestic Product (GDP)

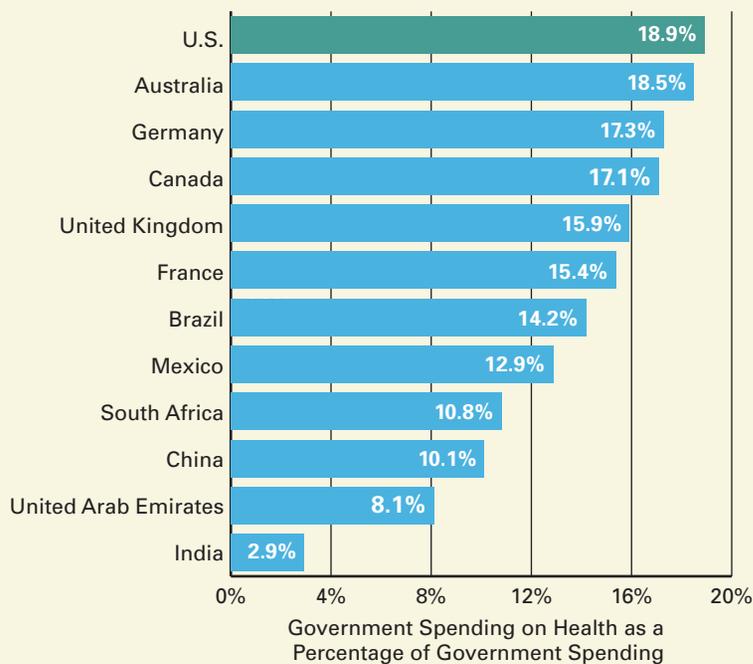
The United States leads the world in healthcare spending as a percentage of GDP, with healthcare accounting for 16.2 percent.



Source: World Health Organization (2006-2007)

National Government Spending on Health for Select Countries

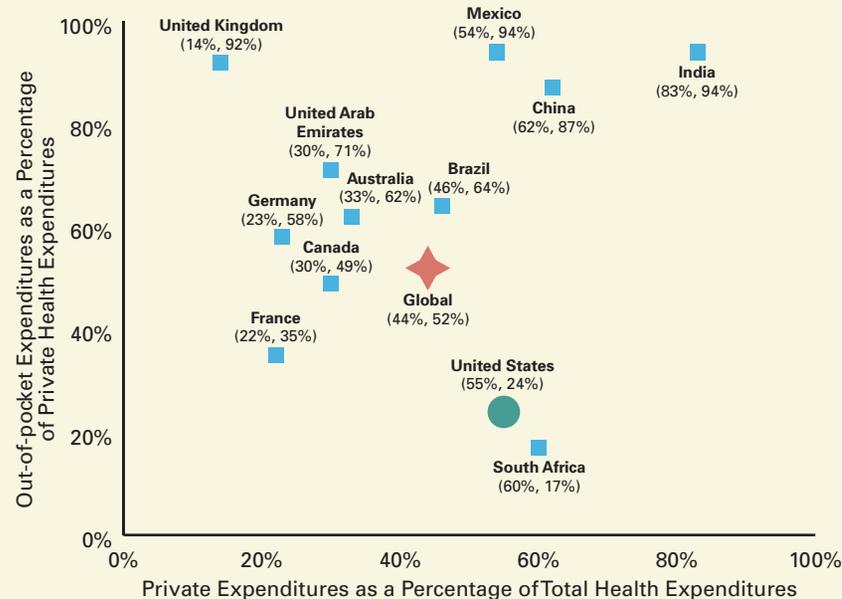
The U.S. government spends a higher percentage of funds on healthcare than most other nations.



Source: World Health Organization (2007)

Health Expenditures of Selected Countries by Source of Funds

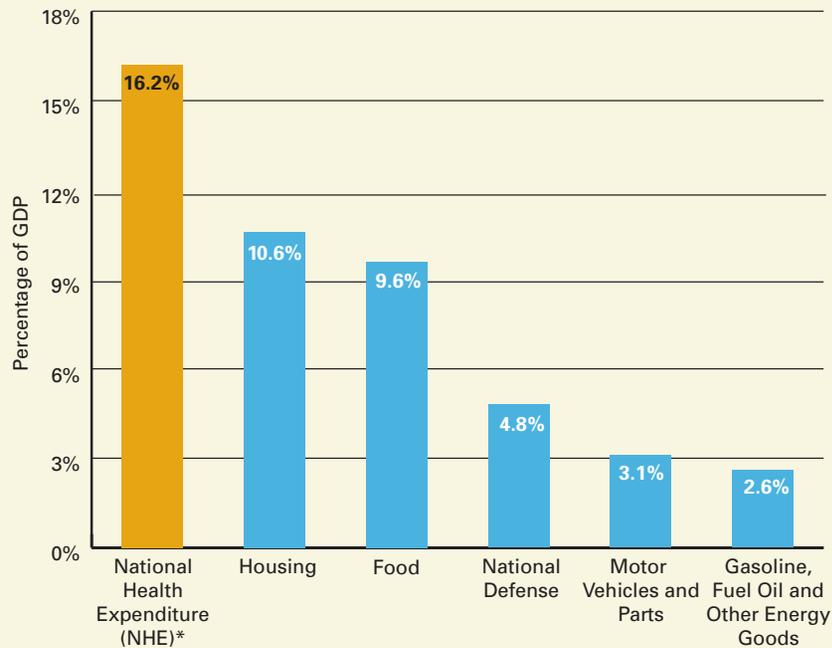
Unlike most other nations, private spending exceeds government health expenditure in the U.S.



Source: World Health Organization (2007)

Components of GDP, Q3 2007

Healthcare is the largest sector of the U.S. economy.



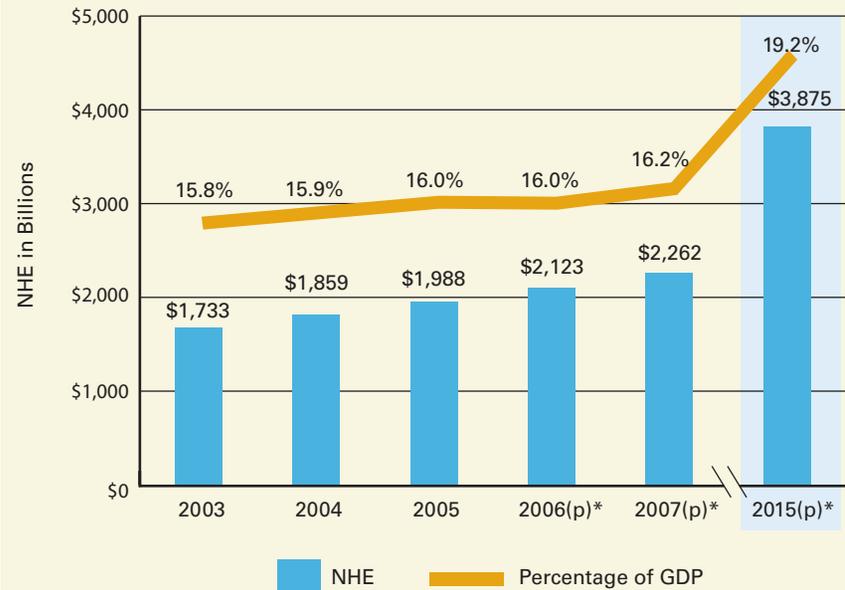
*Annual figure for 2007 projected by Centers for Medicare and Medicaid Services (CMS)

Note: NHE measures the total amount spent in the U.S. to purchase healthcare goods and services during the year. The amount invested in medical sector structures and equipment and in non-commercial research in the U.S. is also included.

Source: Bureau of Economic Analysis (2007), Centers for Medicare and Medicaid Services (2007)

National Health Expenditure (NHE), 2003-2015

The NHE is projected to increase by more than 70 percent between 2007 and 2015, with healthcare expected to account for almost 20 percent of GDP.

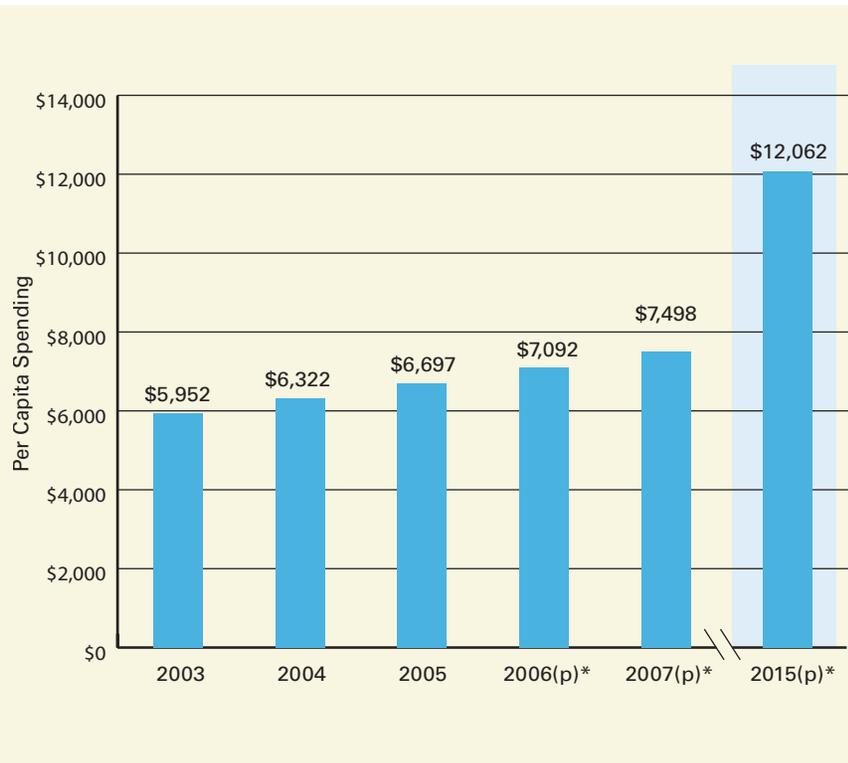


*Projected by CMS

Source: Centers for Medicare and Medicaid Services (2007)

Expenditures per Capita, 2003-2015

On a per capita basis, NHE has been growing at a projected Compound Annual Growth Rate (CAGR) of almost six percent over the last five years.



*Projected by CMS

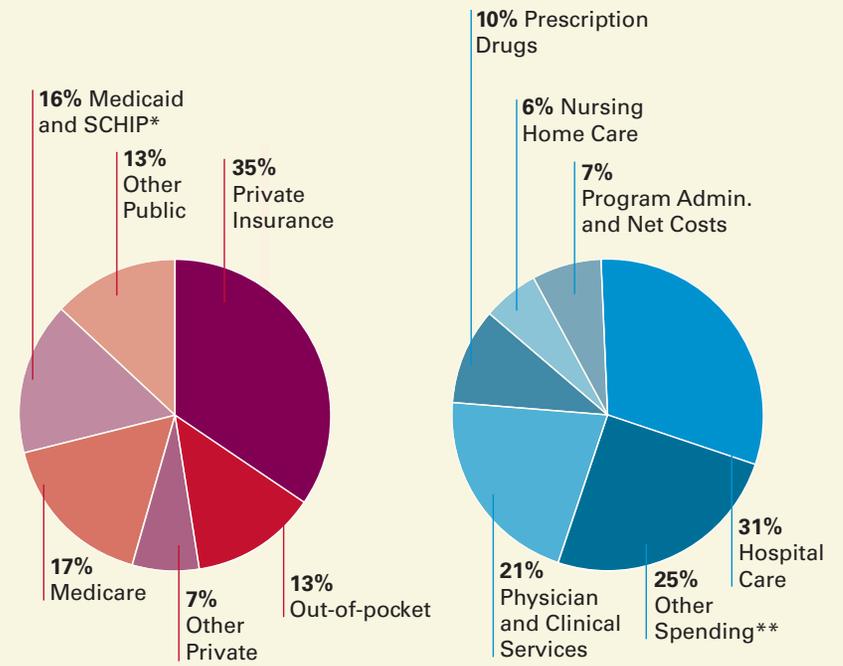
Source: Centers for Medicare and Medicaid Services (2007)

The Nation's Healthcare Dollar, 2005

Public payments (Medicare, Medicaid and other public sources) account for 46 percent of the nation's healthcare dollar; private health insurance accounts for 35 percent.

Where it Came From:

Where it Went:



*SCHIP is State Children's Health Insurance Program.

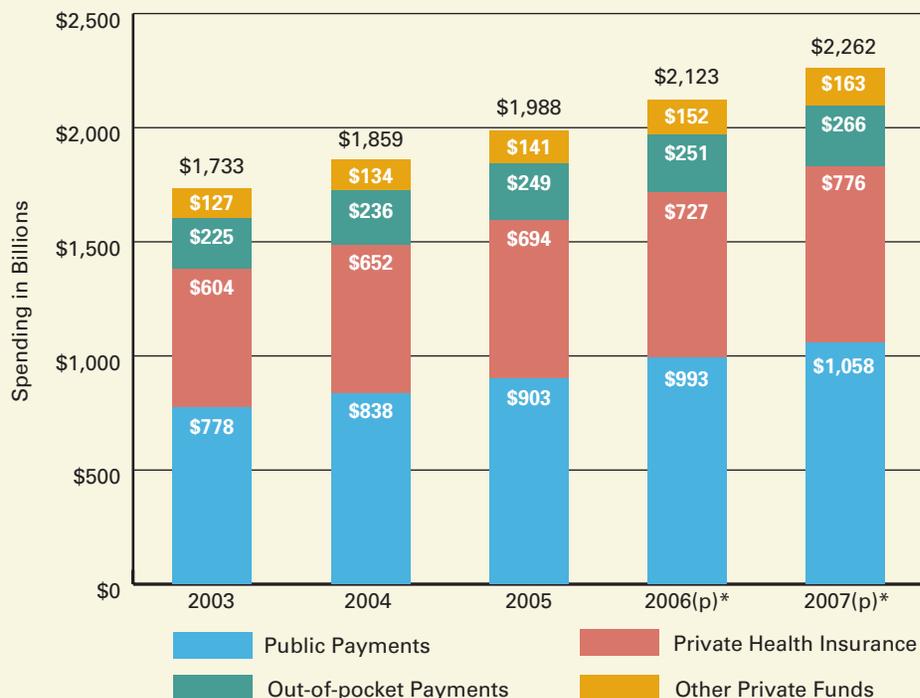
**Other spending includes dental services, other professional services, home healthcare, durable medical products, over-the-counter medicines and sundries, public health activities, research and construction.

Source: Centers for Medicare and Medicaid Services (2007)

NHE by Source of Funds, 2003-2007

Rate of growth of public payments outpaces growth of other sources of NHE funds.

Where it Came From



Sources of Funds	CAGR 2003-2007
Public Payments	8.0%
Private Health Insurance	6.5%
Out-of-pocket Payments	4.3%
Other Private Funds	6.4%
Total NHE	6.9%

*Projected by CMS

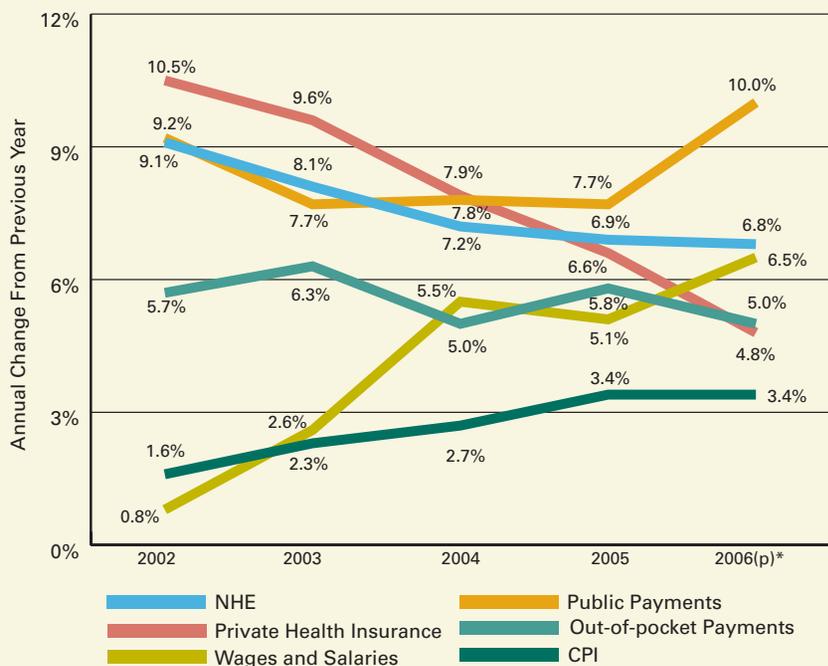
Note: CMS defines each as follows: Out-of-pocket payments includes direct spending by consumers for all healthcare goods and services, including coinsurance, deductibles and any amounts not covered by insurance. Private health insurance equals premiums earned by private health insurers, including premiums paid to Blue Cross and Blue Shield, commercial insurance, HMOs, self-insured plans and property/casualty insurance coverage for healthcare. Public payments are payments made by federal, state and local governments. Other private funds are funds received through philanthropic support, as well as income from the operation of gift shops, cafeterias, parking lots and educational programs.

Source: Centers for Medicare and Medicaid Services (2007)

Growth Rates of NHE by Source of Funds, the Consumer Price Index (CPI) and Wages and Salaries, 2002-2006

Historically, the growth rates of all NHE payment components have been higher than the growth rate of the CPI.

Where it Came From



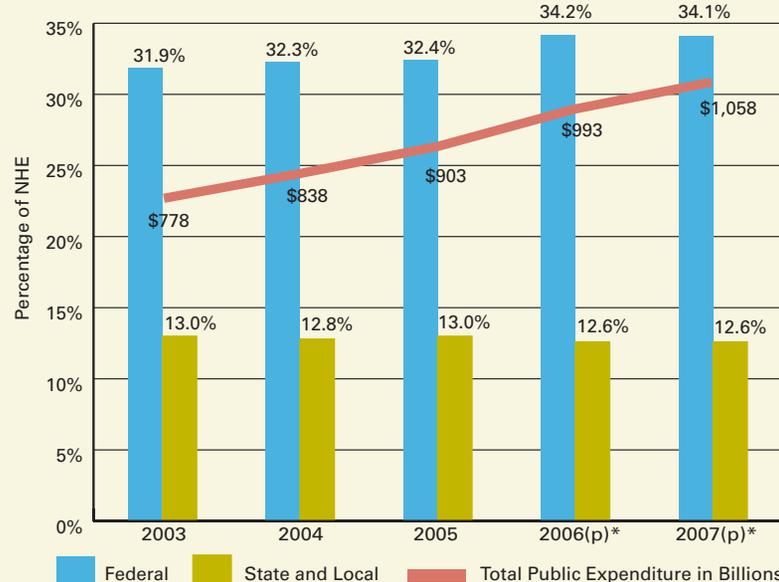
*Projected or estimated

Source: Centers for Medicare and Medicaid Services (2007), Congressional Budget Office (2007)

Government Contributions to NHE, 2003-2007

In 2007, the government contribution to NHE is projected to increase in absolute dollars, but the percentage of contribution is projected to stay at 12.6 percent.

Where it Came From



Contribution to NHE	CAGR 2003-2007
Total Public	8.0%
Federal	8.7%
State and Local	6.2%

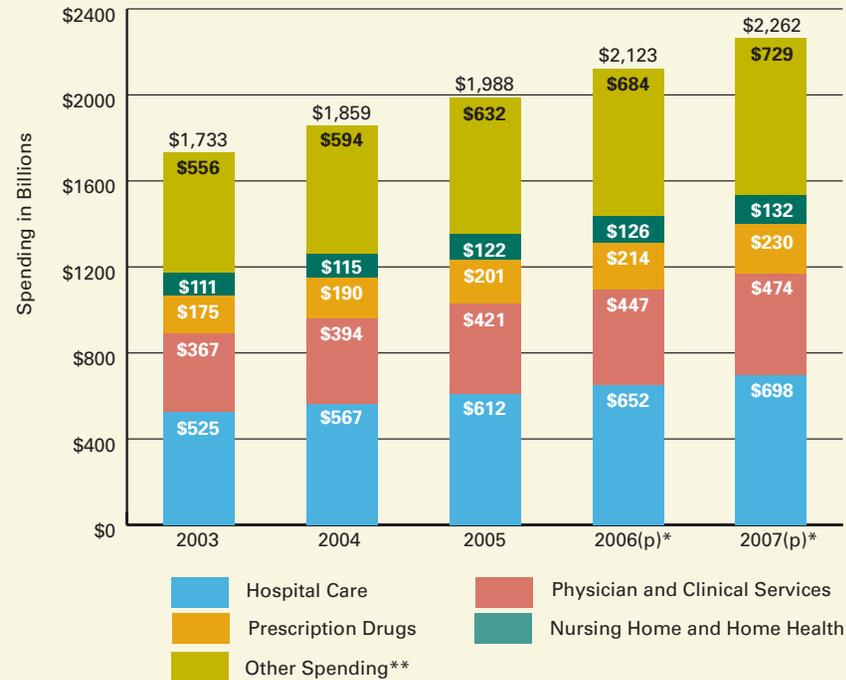
*Projected by CMS.

Source: Centers for Medicare and Medicaid Services (2007)

NHE by Use of Funds, 2003-2007

Hospital care remains the largest user of NHE funds, spending 31 percent of annual healthcare expenditures.

Where it Went



Use of Funds	CAGR 2003-2007
Hospital Care	7.3%
Physician and Clinical Services	6.6%
Prescription Drugs	7.1%
Nursing Home and Home Health	4.6%
Other Spending **	7.0%
Total NHE	6.9%

*Projected by CMS

**Other spending includes dental services, other professional services, durable medical products, over-the-counter medicines and sundries, public health activities, research and construction, and government administration and net costs of private health insurance.

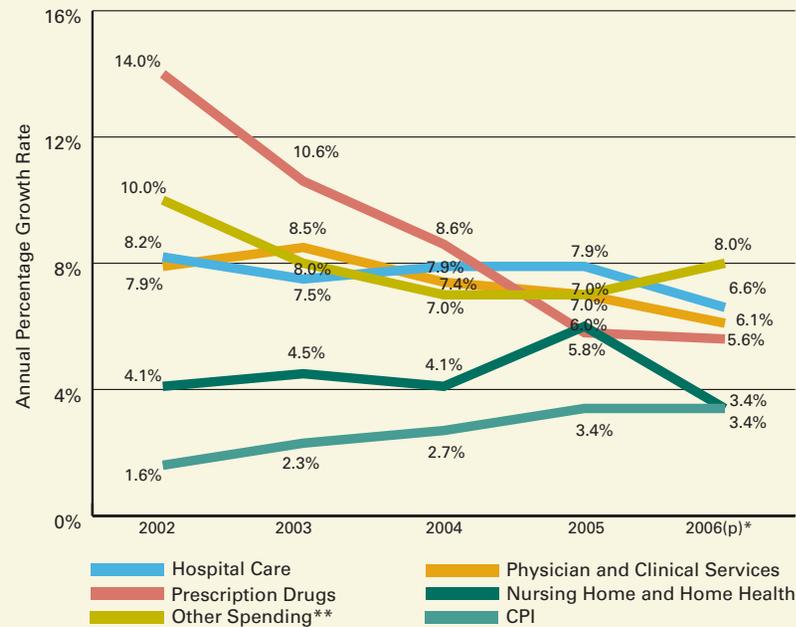
Note: Numbers may not add up due to rounding.

Source: Centers for Medicare and Medicaid Services (2007)

Growth Rates of NHE by Use of Funds, and the CPI, 2002-2006

Healthcare spending components have grown faster than the CPI but the growth rates are declining.

Where it Went



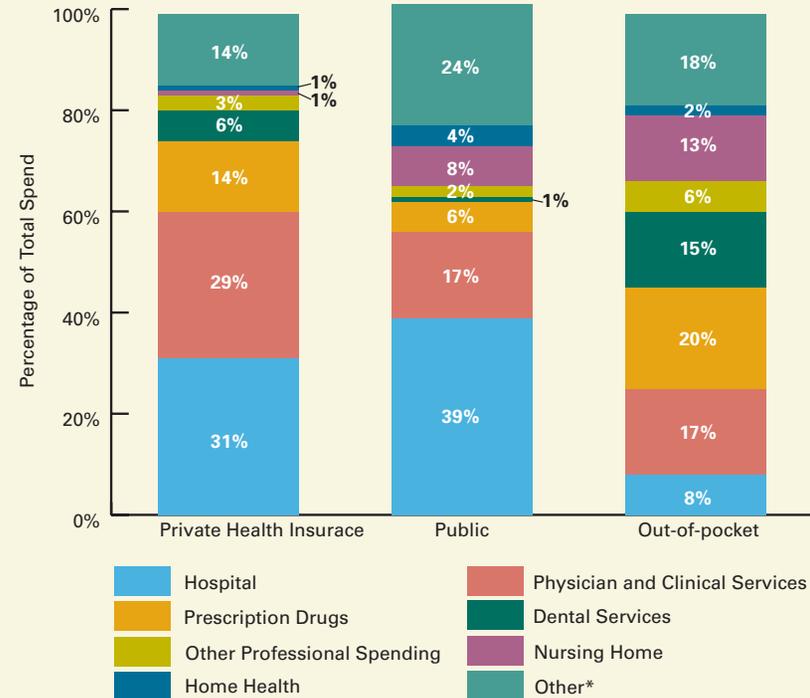
*Projected or estimated.
**Other spending includes dental services, other professional services, durable medical products, over-the-counter medicines and sundries, public health activities, research and construction, and government administration and net costs of private health insurance.

Source: Centers for Medicare and Medicaid Services (2007), Congressional Budget Office (2007)

Comparison of Public, Private and Out-of-pocket Healthcare Dollar, 2005

More than 60 percent of private health insurance and public sources spending goes towards hospitals, physicians and prescription drugs. Out-of-pocket spending is spread across multiple areas.

Where it Went



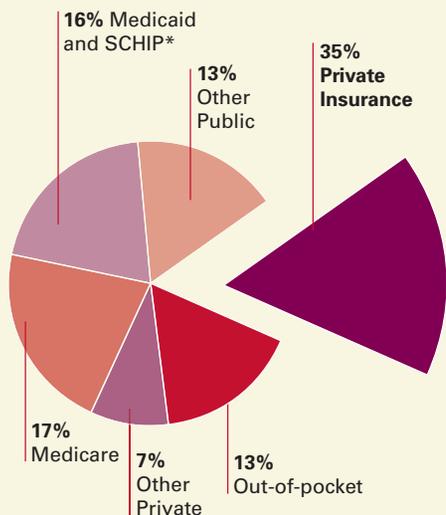
*Other spending includes dental services, other professional services, durable medical products, over-the-counter medicines and sundries, public health activities, research and construction, and government administration and net costs of private health insurance.

Source: Centers for Medicare and Medicaid Services (2007)

Private Insurance Healthcare Dollar, 2005

Nearly 75 percent of the private insurance healthcare dollar goes toward hospitals, physician services and prescription drugs.

**Nation's Healthcare Dollar
Where it Came From**



*Includes government administration and net cost of private health insurance
Source: Adapted from Centers for Medicare and Medicaid Services (2007)



Health Insurance Coverage

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Summary

Nearly 68 percent of all Americans were covered by a private insurance plan during 2006 – and another 27 percent received medical coverage through government programs.

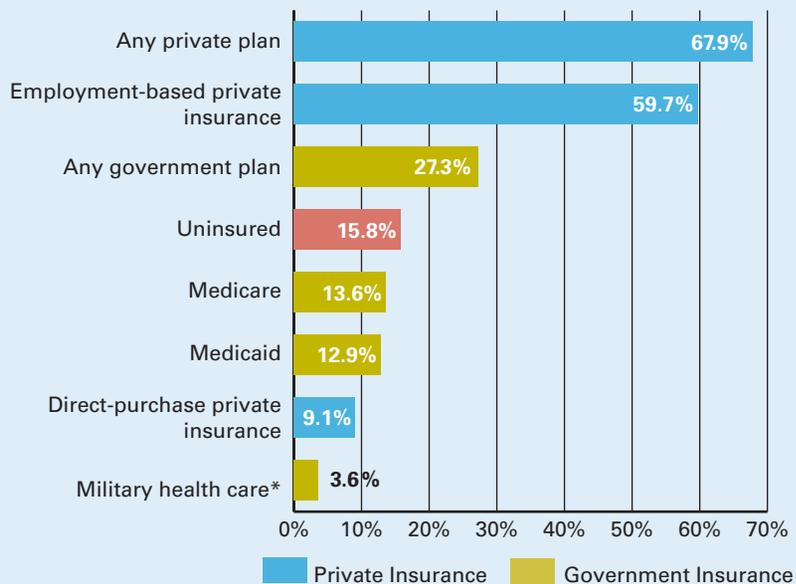
Sixty percent of employers currently offer health benefits to their employees, a trend that has been stable since 2003. In the same period, the growth rate in health insurance premiums has been cut by more than half, from 13.9 percent in 2003 to 6 percent in 2006.

Companies continue to look for ways to stretch their healthcare dollars and are instituting a variety of cost-saving strategies. For example, many are adopting programs to change employee behavior and perceptions to better control healthcare costs such as promoting generic drug utilization, disease management programs and preventive health and behavior programs.

While growing in overall numbers, the uninsured rate remains at about 15.8 percent. Blue Cross and Blue Shield companies are joining other industry leaders in pursuing public-private sector programs to extend health coverage to uninsured Americans.

Coverage by Type of Health Insurance, 2006

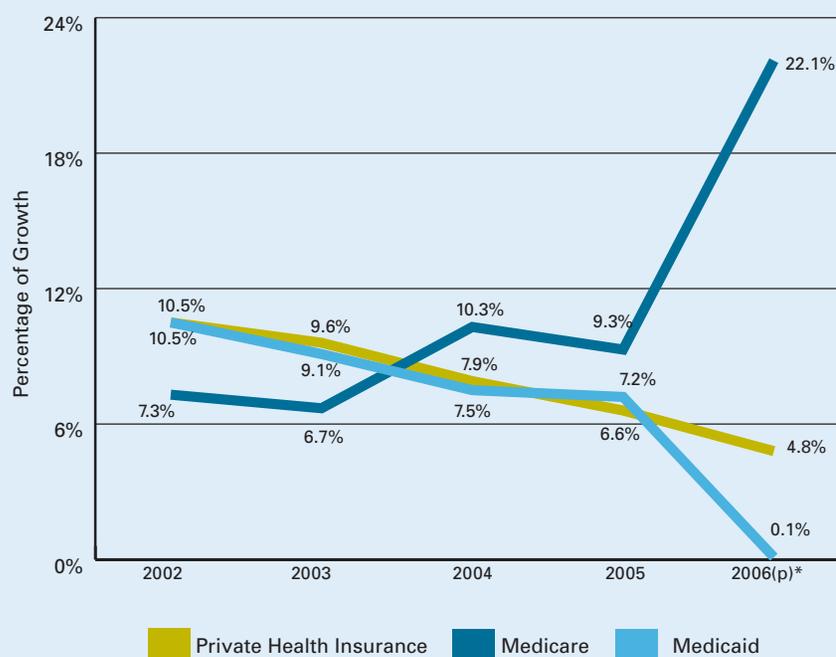
The majority of the U.S. population is covered by employer health insurance plans.



*Military health care includes Comprehensive Health and Medical Plan for Uniformed Services (CHAMPUS)/Tricare and Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), as well as care provided by the Department of Veterans Affairs and the military.
 Note: The estimates by types of coverage are not mutually exclusive; people can be covered by more than one type of health insurance during the year.
 Source: U.S. Census Bureau, Current Population Survey, 2007 Annual Social and Economic Supplements

Percentage of Growth in Private Health Insurance, Medicare and Medicaid Contributions to the NHE, 2002-2006

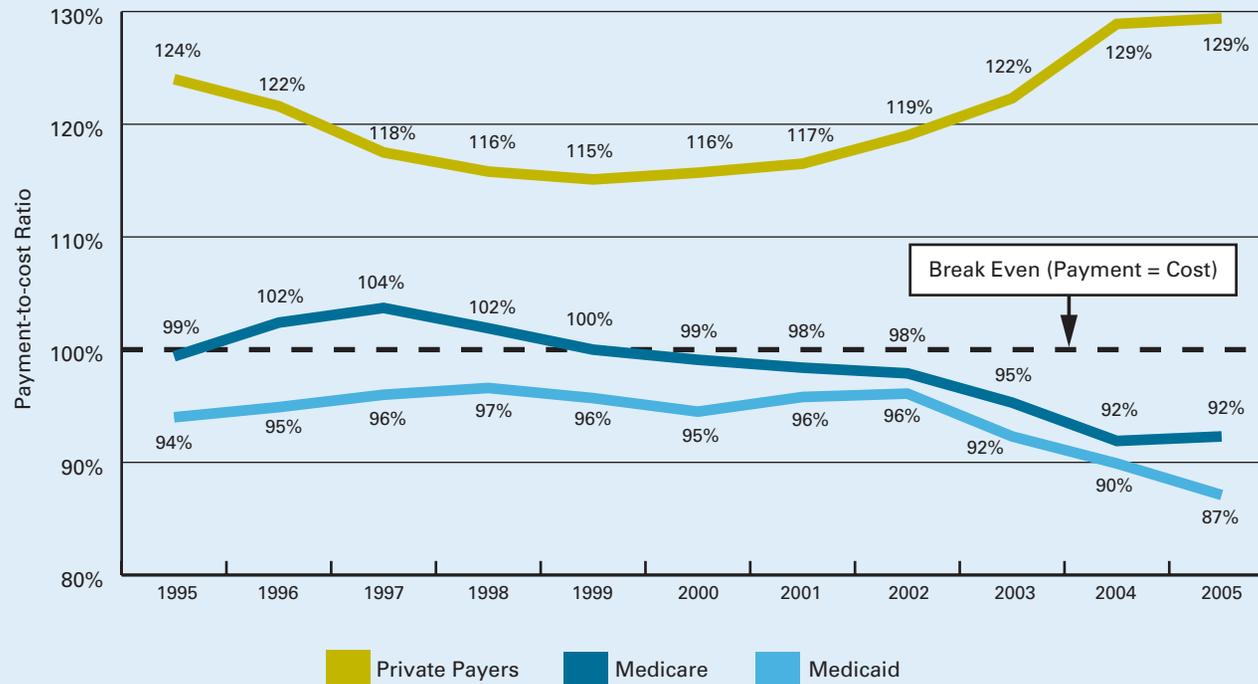
Since 2004, growth in Medicare contributions to NHE has outpaced growth in private health insurance contributions.



*Projected by CMS
 Source: Centers for Medicare and Medicaid Services (2007)

Hospital Payment-to-cost Ratios for Medicare, Medicaid and Private Payers, 1995-2005

Private payers pay hospitals at a higher rate than Medicare and Medicaid.

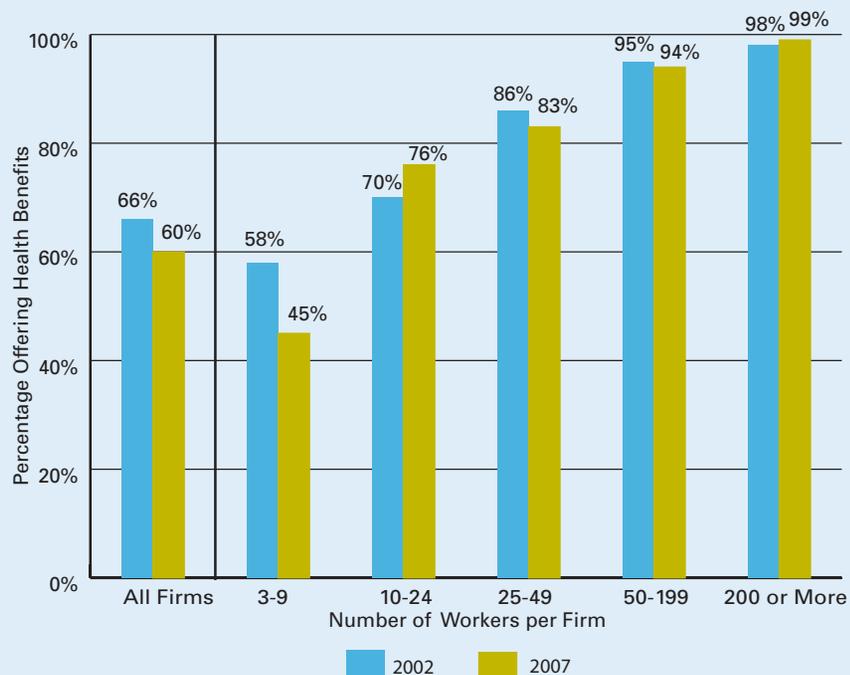


Note: Payment-to-cost ratios indicate the degree to which payments from each payer covers the costs of treating that provider's patients. Data are for community hospitals and cover all hospital services. Imputed values were used for missing data (about 35% of observations). Most Medicaid managed care patients are included in the private payers' category.

Source: Adapted from the American Hospital Association and Avalere Health TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Percentage of Firms Offering Health Benefits, 2002 and 2007

More than 83 percent of firms with 25 or more workers offer health benefits, while small businesses of fewer than 10 workers often do not.

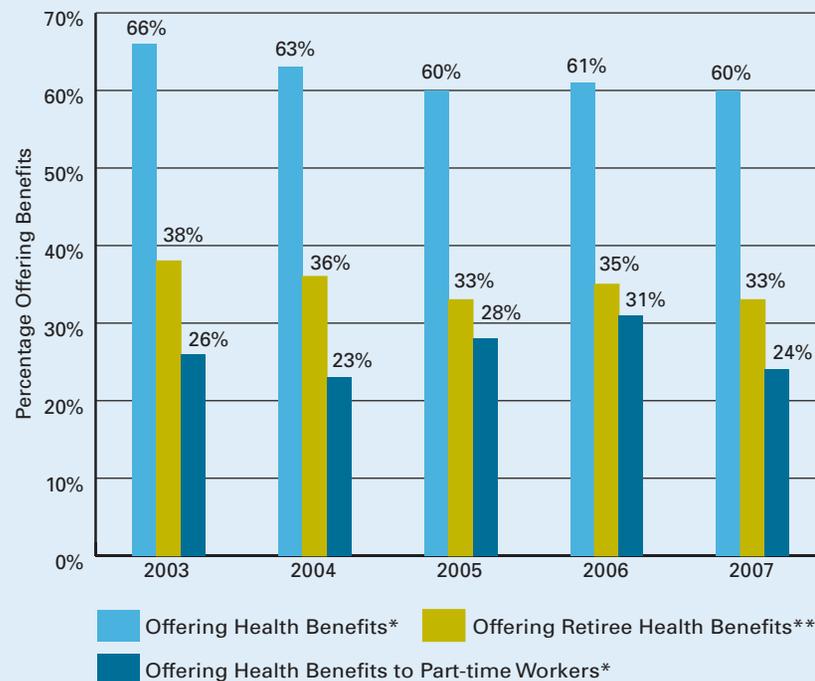


Source: "Employer Health Benefits 2007 Annual Survey," (#7672), The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, September 2007

This information adapted with permission from the Henry J. Kaiser Family Foundation. The Kaiser Family Foundation, based in Menlo Park, California, is a nonprofit, independent national healthcare philanthropy and is not associated with Kaiser Permanente or Kaiser Industries.

Percentage of Employers Offering Health Benefits to Employees and Retirees, 2003-2007

The number of employers offering benefits has stabilized since 2003, while retiree health benefit offerings have remained somewhat static.



*Among all firms

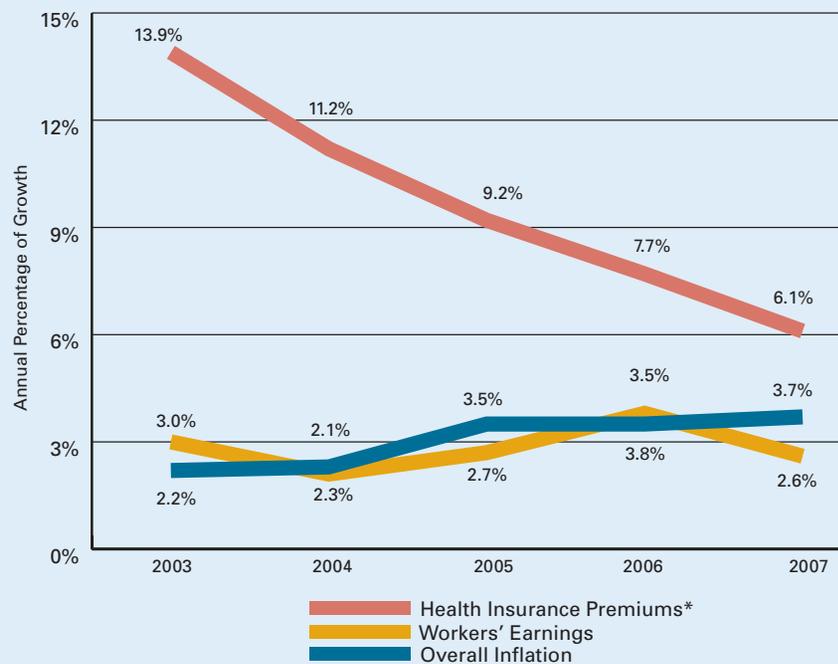
**Among all firms with 200 or more workers offering health benefits to active workers

Source: "Employer Health Benefits 2007 Annual Survey," (#7672), The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, September 2007

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Growth Rates of Health Insurance Premiums, Overall Inflation and Workers' Earnings, 2003-2007

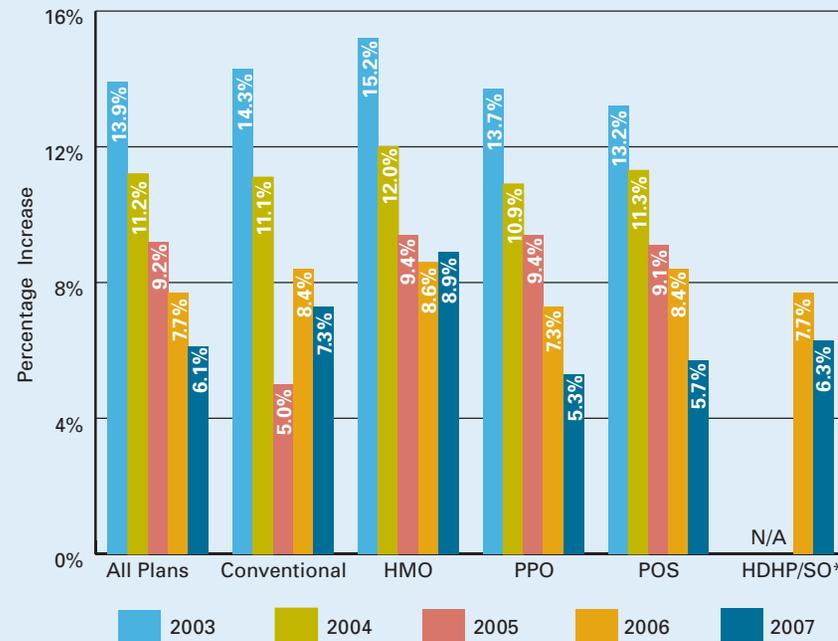
In five years, growth in health insurance premiums has been cut by more than half.



*Data on premium increases reflect the cost of health insurance for a family of four
Source: Calculated based on "Employer Health Benefits 2007 Annual Survey," (#7672), The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, September 2007
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Growth Rates in Health Insurance Premiums by Plan Type, 2003-2007

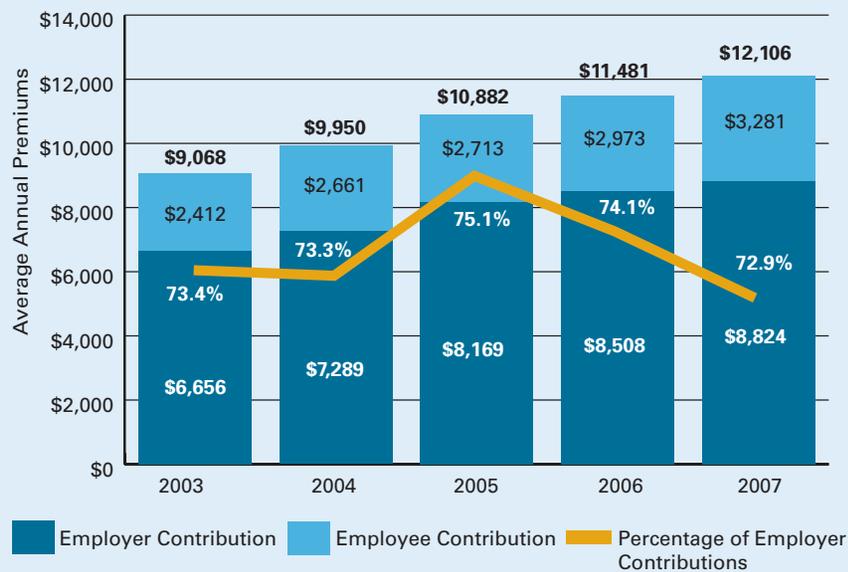
Across all plan types, the growth in insurance premiums has slowed since 2003.



*High deductible health plan with savings option
Note: Data on premium increases reflect the cost of health insurance for a family of four.
Source: "Employer Health Benefits 2007 Annual Survey," (#7672), The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, September 2007
This information adapted with permission from the Henry J. Kaiser Family Foundation. The Kaiser Family Foundation, based in Menlo Park, California, is a nonprofit, independent national healthcare philanthropy and is not associated with Kaiser Permanente or Kaiser Industries.

Average Annual Premium Contribution for Family Coverage, 2003-2007

In 2007, employers' annual health insurance premium contribution declined 2.2 percent from 2005 to the lowest level in the past five years.

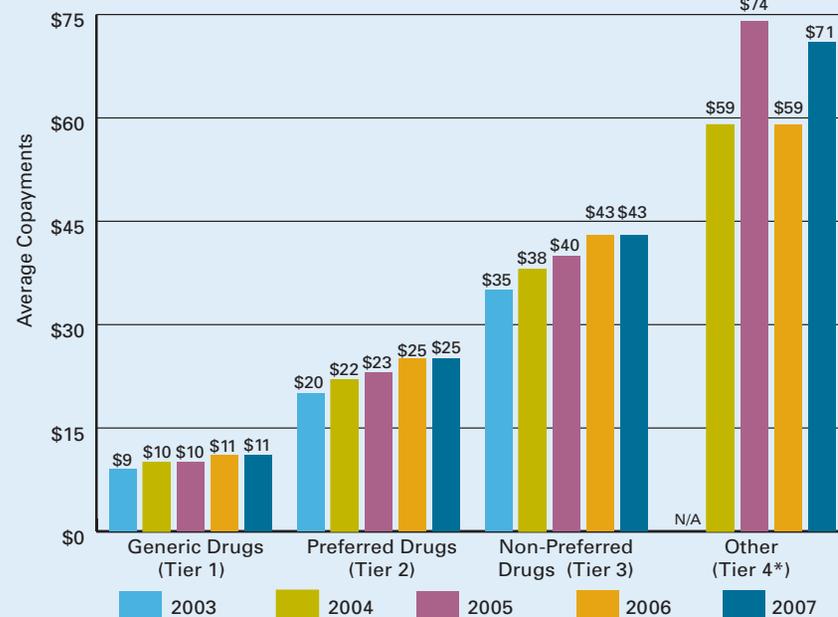


Note: Coverage is for a family of four.

Source: Calculated based on "Employer Health Benefits 2007 Annual Survey," (#7672), The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, September 2007
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Average Consumer Pharmacy Copayments by Tier, 2003-2007

Copayments for generic drugs have been relatively stable but copayments for other drug tiers have been increasing.

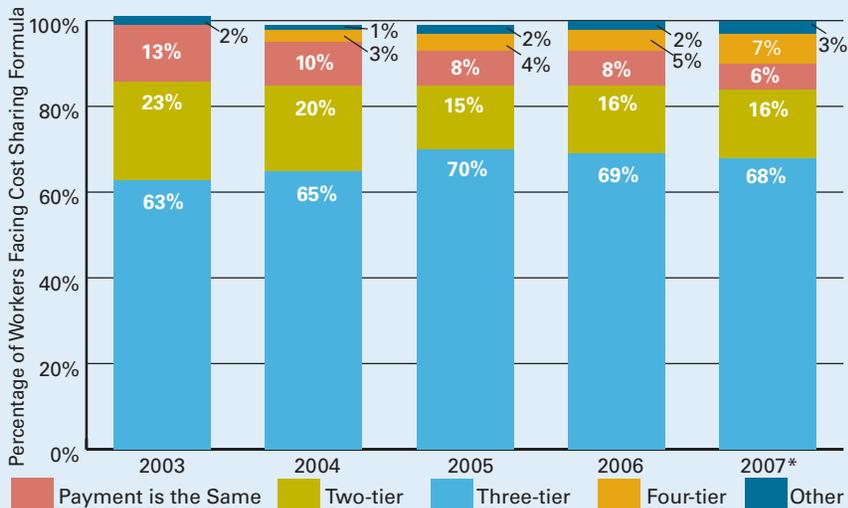


*Fourth-tier drugs are drug products, such as lifestyle or injectable drugs, that are paid for using new types of cost-sharing arrangements that typically have higher copayments or coinsurance. The average copayment for fourth-tier drugs is calculated using information from only those plans that have a fourth-tier copayment amount.

Source: "Employer Health Benefits 2007 Annual Survey," (#7672), The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, September 2007
This information adapted with permission from the Henry J. Kaiser Family Foundation. The Kaiser Family Foundation, based in Menlo Park, California, is a nonprofit, independent national healthcare philanthropy and is not associated with Kaiser Permanente or Kaiser Industries.

Distribution of Covered Workers Facing Different Cost Sharing Formulas for Prescription Drug Benefits, 2003-2007

The growth in two-, three-, and four-tier formularies indicates that insured beneficiaries are facing higher prescription cost structures.

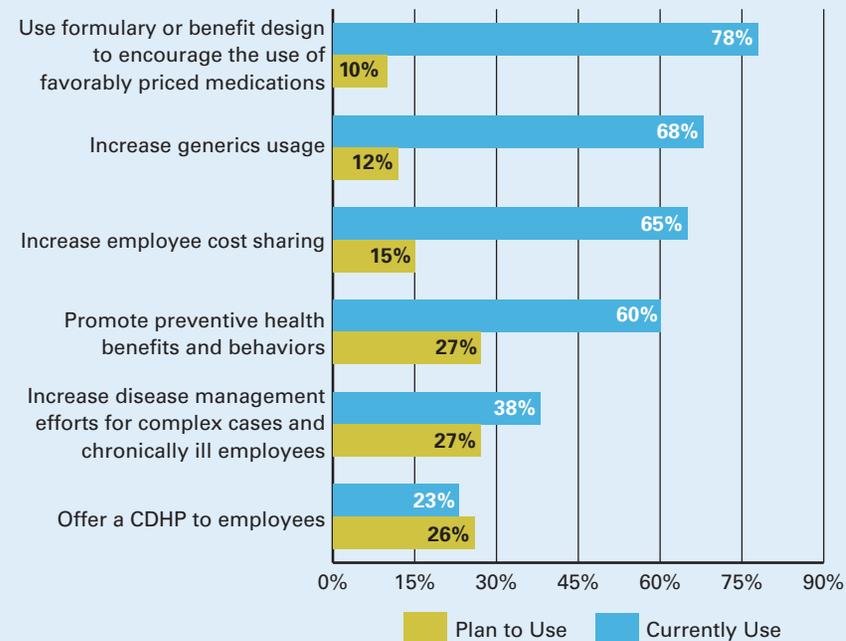


	Percent Change 2003-2007
Payment is the Same	-7%
Two-tier	-7%
Three-tier	5%
Four-tier	n/a
Other	1%

*In 2007, "other" also includes "No cost sharing after deductible is met," which is 2 percent.
 Source: "Employer Health Benefits 2007 Annual Survey," (#7672), The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, September 2007
 This information adapted with permission from the Henry J. Kaiser Family Foundation. The Kaiser Family Foundation, based in Menlo Park, California, is a nonprofit, independent national healthcare philanthropy and is not associated with Kaiser Permanente or Kaiser Industries.

Top Strategies to Control Healthcare Costs, 2007

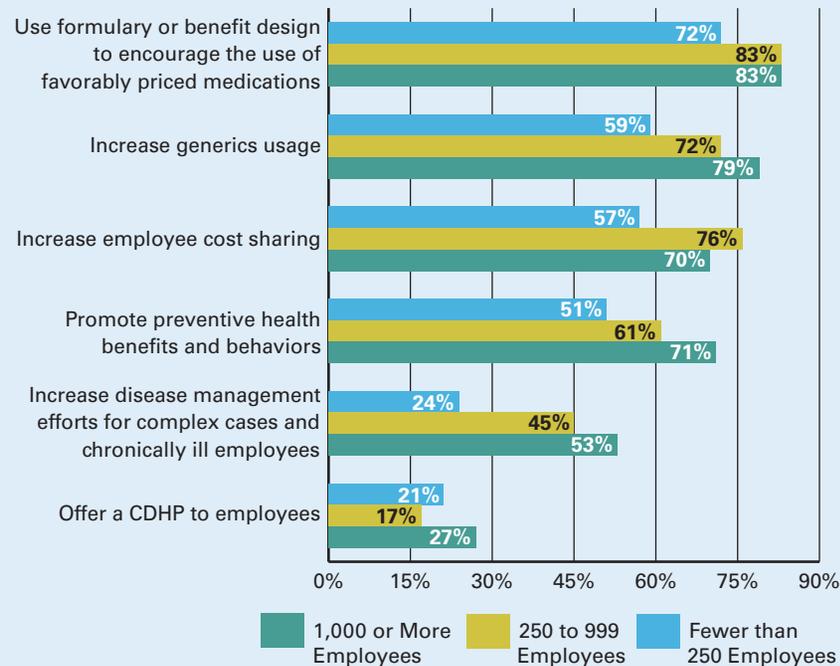
To control healthcare costs, employers are focused on prescription drug spending.



Base: 925 U.S. respondents who provide employees health insurance
 Source: Will Plans Abandon \$1.4B in Annual CDHP Profits?, Forrester Research, Inc., February 2007

Top Strategies to Control Healthcare Costs by Firm Size, 2007

Larger firms are more active in adopting health management and formulary design strategies to control healthcare costs.



Base: 908 benefits executives at various firms.

Source: Benefit Managers Favor an Ounce of Prevention for Controlling Health Costs, Forrester Research, Inc., October 2006

Types and Characteristics of CDHPs

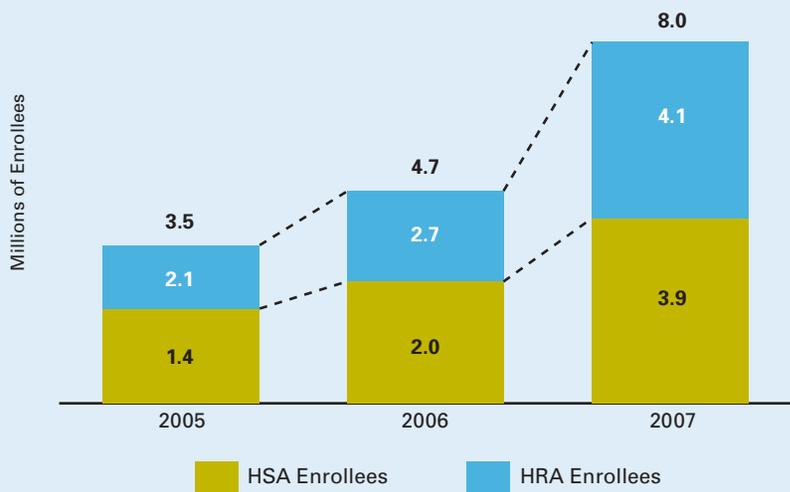
Both employers and consumers are showing increased interest in consumer directed health plans (CDHPs).

	Health Reimbursement Arrangement (HRA)	Health Savings Account (HSA)	Flexible Spending Account (FSA)
Eligibility	Depends on employer	Anyone not enrolled in Medicare	Depends on employer
Requirements for Associated Health Plan	None	2006 Minimum deductible: \$1,050/\$2,100 2006 Maximum OOP limit: \$5,250/\$10,500	None
Contribution Sources and Annual Limits	Employer only	Employer or individual; Lesser of deductible or \$2,700/\$5,450 in 2006	Individual; employer may set an upper limit
Annual Rollover and Portability	Unused funds may be rolled over but generally not portable	Unused funds may be rolled over and are portable	Unused funds are forfeited at the end of year
Year Authorized	2002	2003	1978

Source: Congressional Budget Office (2006) Consumer-directed Health Plans: Potential Effects on Health Care Spending and Outcomes

Employer-based Members Enrolled in CDHP, 2007

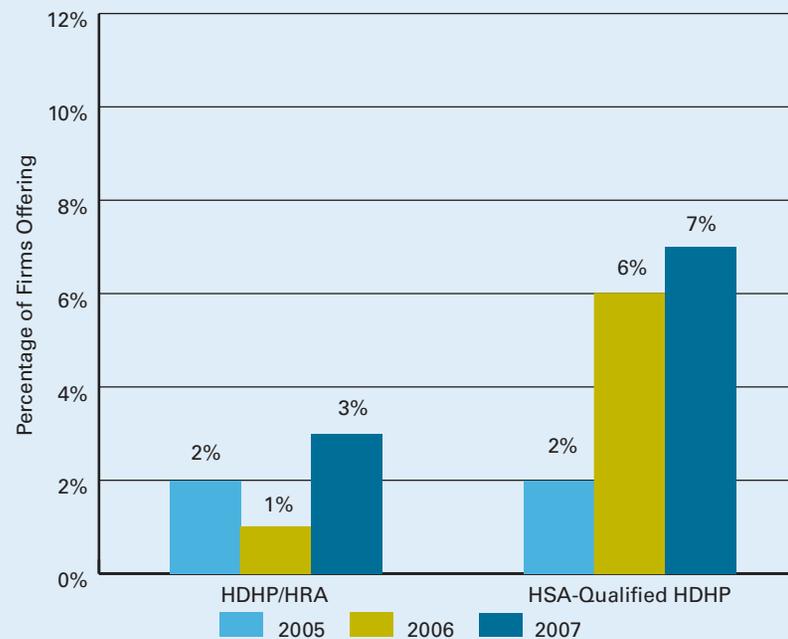
In 2007 CDHP market adoption increased 129 percent from 2005.



Sources: Blue Cross and Blue Shield Association (2007) National Account Resource Guide

Among Firms Offering Health Benefits, Percentage that Offers an HDHP/HRA or an HSA-qualified HDHP, 2005-2007

Employers are expanding their HDHP offerings.



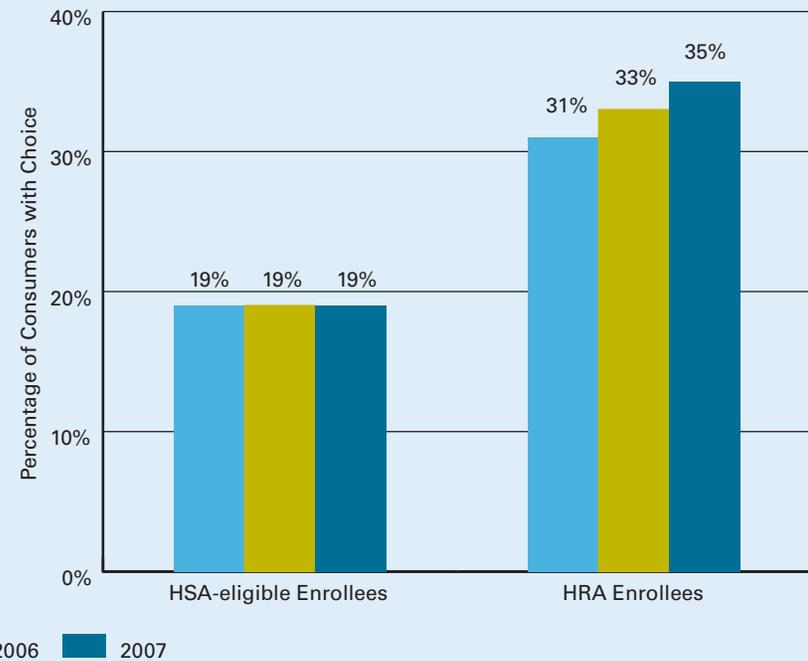
Source: "Employer Health Benefits 2007 Annual Survey," (#7672), The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, September 2007

This information adapted with permission from the Henry J. Kaiser Family Foundation. The Kaiser Family Foundation, based in Menlo Park, California, is a nonprofit, independent national healthcare philanthropy and is not associated with Kaiser Permanente or Kaiser Industries.

Percentage of National Accounts Offering CDHPs, 2005-2007

CDHP Adoption Rate by National Account-based Enrollees, 2005-2007

Since 2005, employers have expanded CDHP offerings and consumers have increased CDHP adoption.

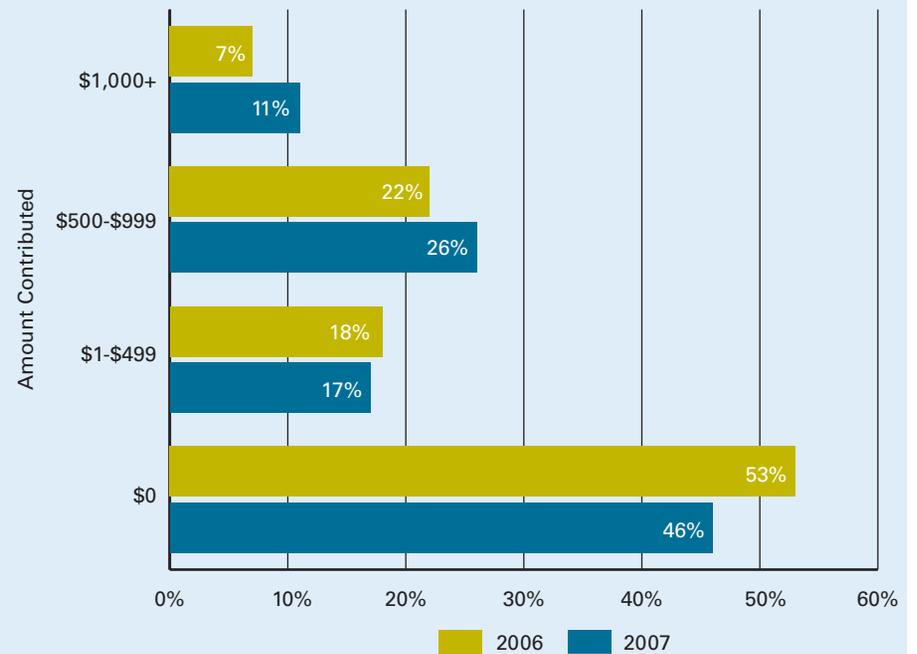
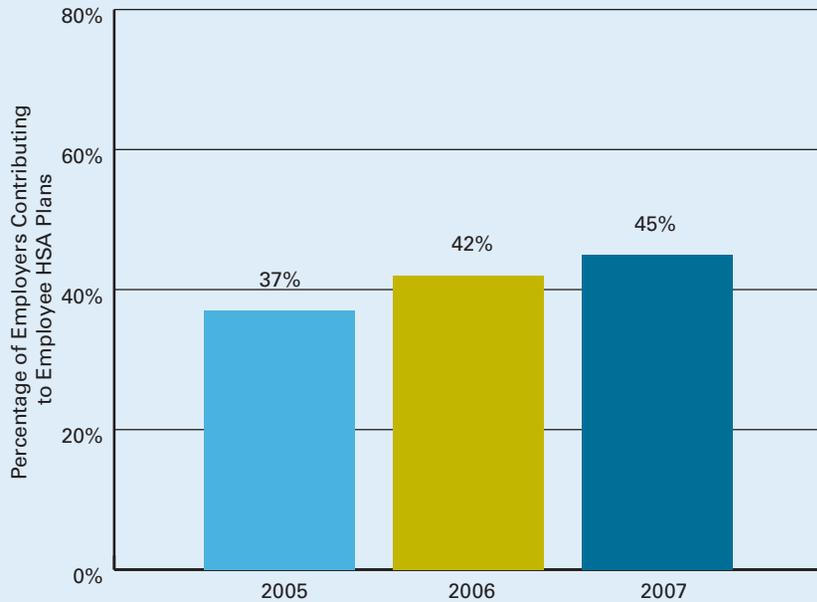


*Significantly different from 2005 result at a 95 percent confidence level
Source: Blue Cross and Blue Shield Association (2007) National Account Resource Guide

Percentage of Employees in HSAs whose Employers Contribute to Their Accounts, 2005-2007

Percentage of Employers Contributing to Employees' HSAs – Individual Coverage, 2006-2007

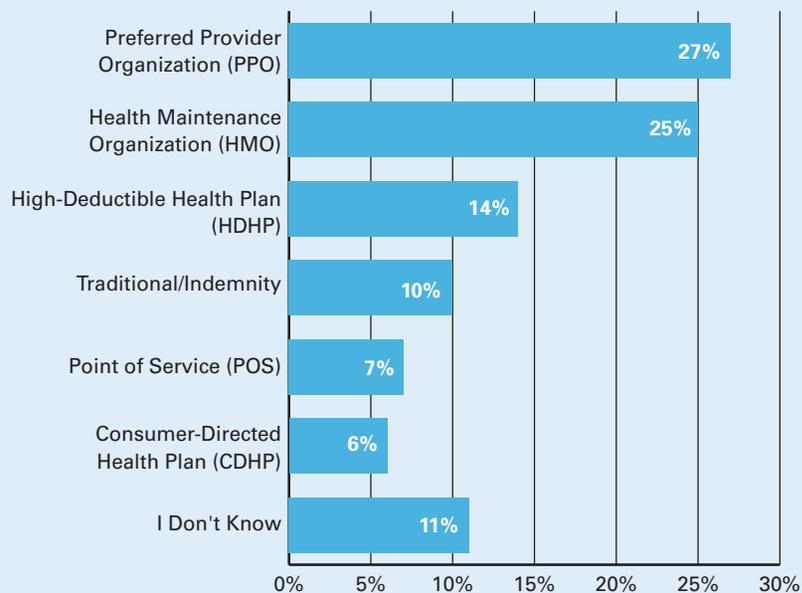
The percentage of employers contributing and the amount contributed to employees' HSAs are increasing.



Source: Blue Cross Blue Shield Association (2007) CDHP Member Experience Survey, Blue Cross and Blue Shield Association (2007) National Account Resource Guide

Individually Purchased Health Insurance Plans, 2007

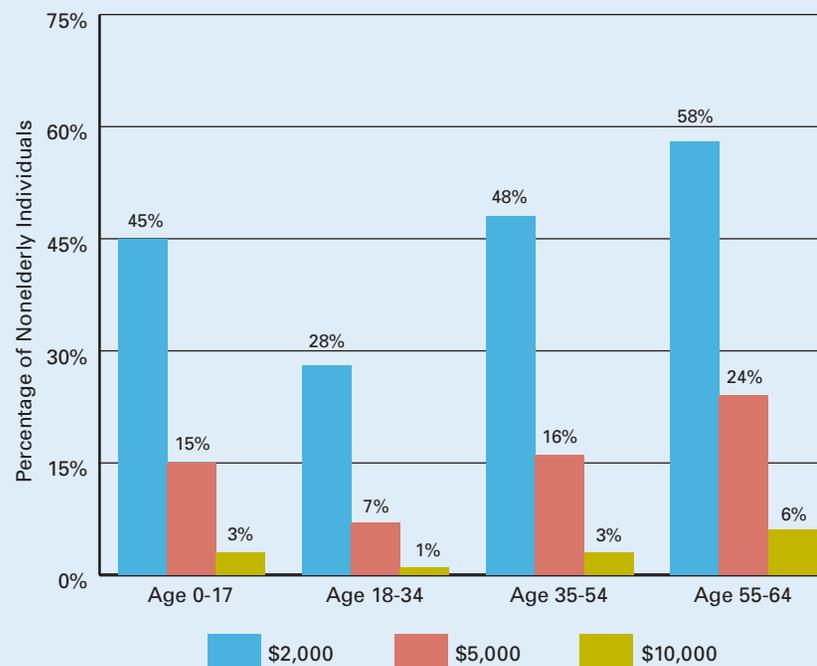
One in five consumers who individually purchased insurance selected either a high-deductible or consumer-directed health plan.



Base: 433 online consumers with an individually purchased health insurance plan
Source: The \$115 Billion Individual Health Insurance Market, Forrester Research, Inc., October 2007

Percentage of Nonelderly Individuals Living in Families with Out-of-pocket Expenditures on Health Care and Insurance Premiums Exceeding \$2,000, \$5,000, and \$10,000, 2003

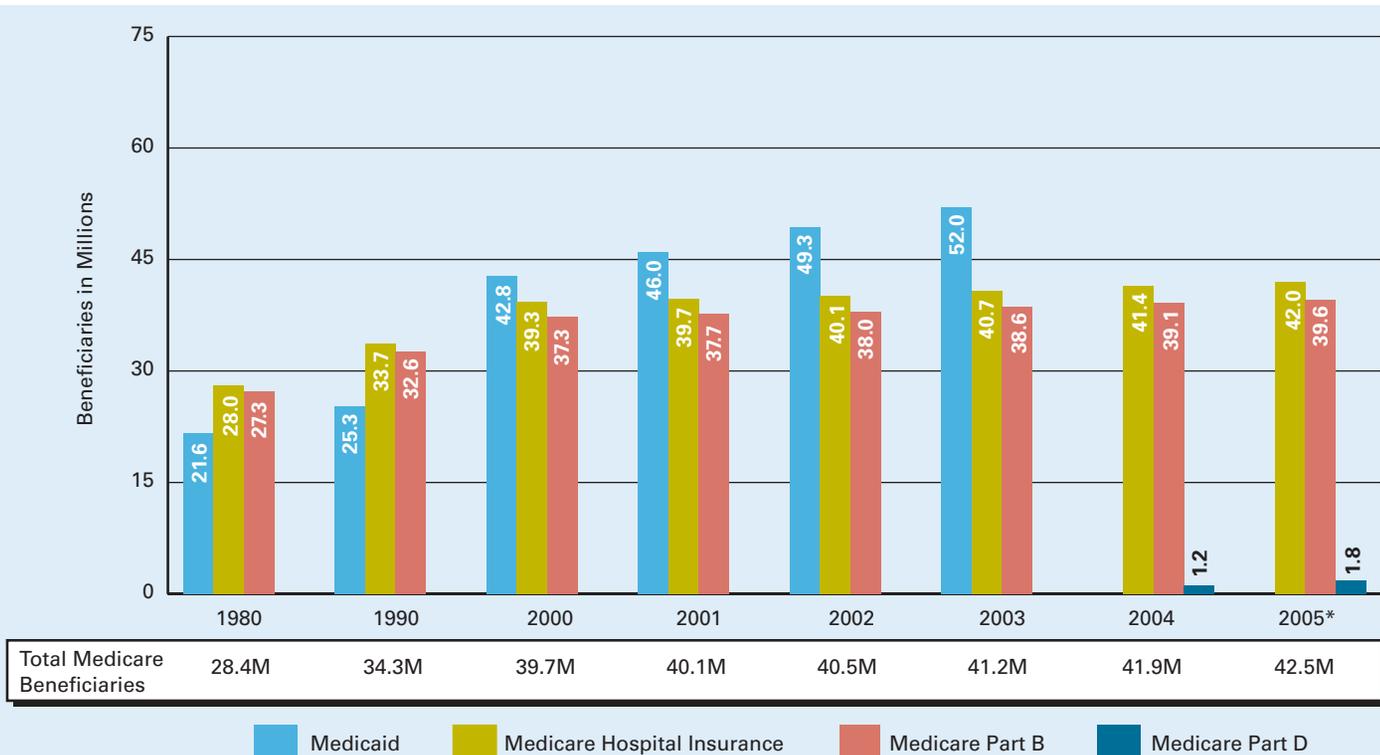
Out-of-pocket health expenditures increase with age.



Source: Agency for Healthcare Research and Quality (2006) Out-of-pocket Expenditures on Health Care and Insurance Premiums Among the Nonelderly Population, 2003; March 2006

Medicaid and Medicare Beneficiaries, 1980-2005

Since 1980, the number of Medicaid recipients has more than doubled and the number of Medicare beneficiaries has grown by about half.

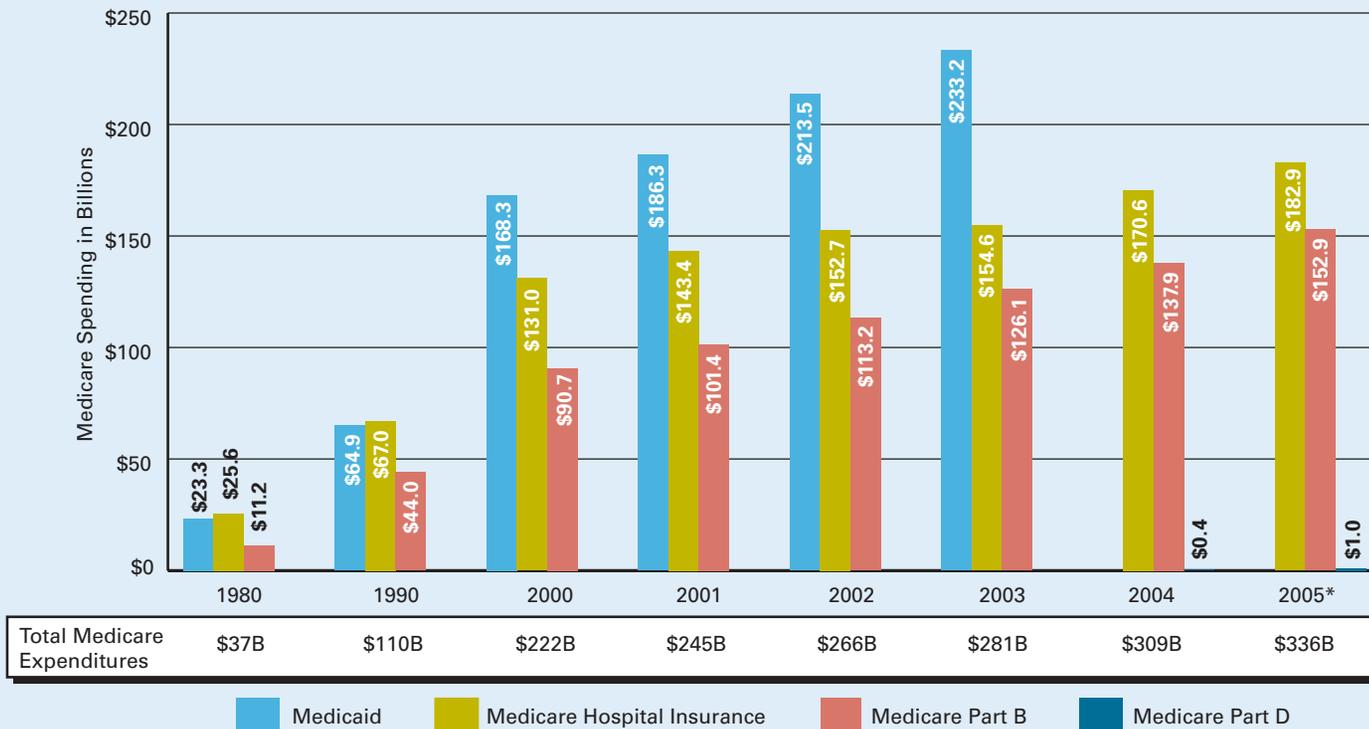


*Preliminary Figures

Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Medicaid and Medicare Expenditures, 1980-2005

Since 1980, Medicaid and Medicare spending has increased nearly 10-fold.

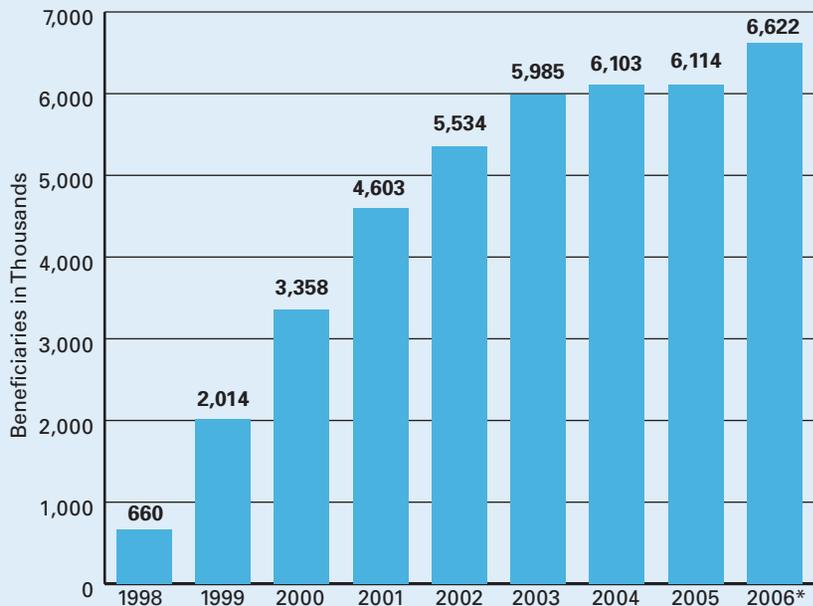


*Preliminary Figures

Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Enrollment in SCHIP, 1998-2006

Enrollment in SCHIP has grown 10-fold since 1998 but has been stable since 2003.



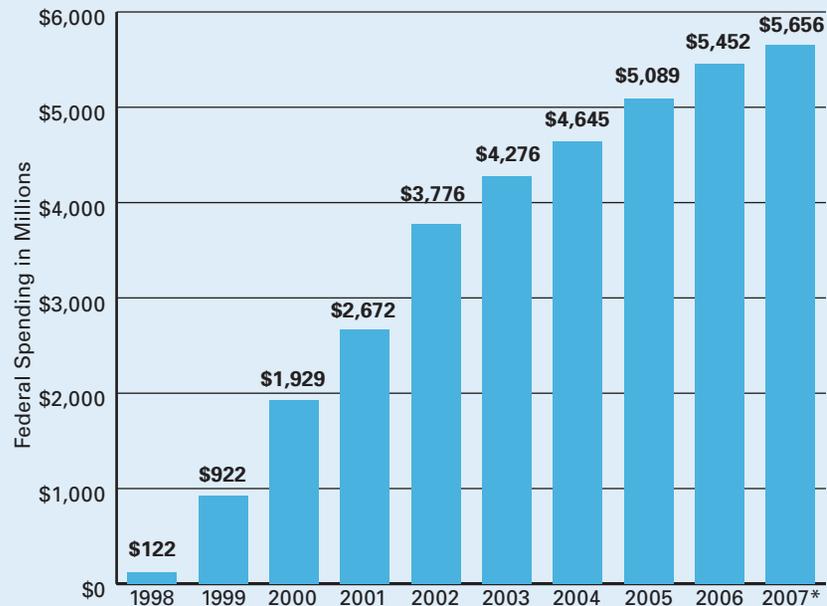
*Preliminary Figure

Note: SCHIP is the State Children's Health Insurance Program.

Source: Congressional Budget Office (2007) The State Children's Health Insurance Program

Federal Spending for SCHIP, 1998-2006

Spending for SCHIP has increased annually.

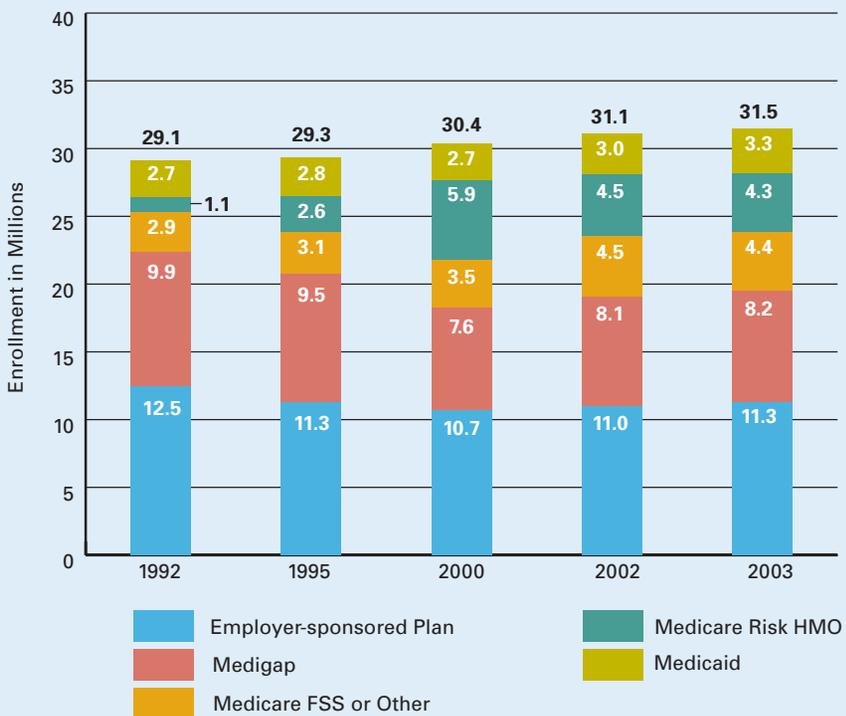


*Projected by the Congressional Budget Office

Source: Congressional Budget Office (2007) The State Children's Health Insurance Program

Health Insurance Coverage for Persons Age 65 and Over, 1992-2003

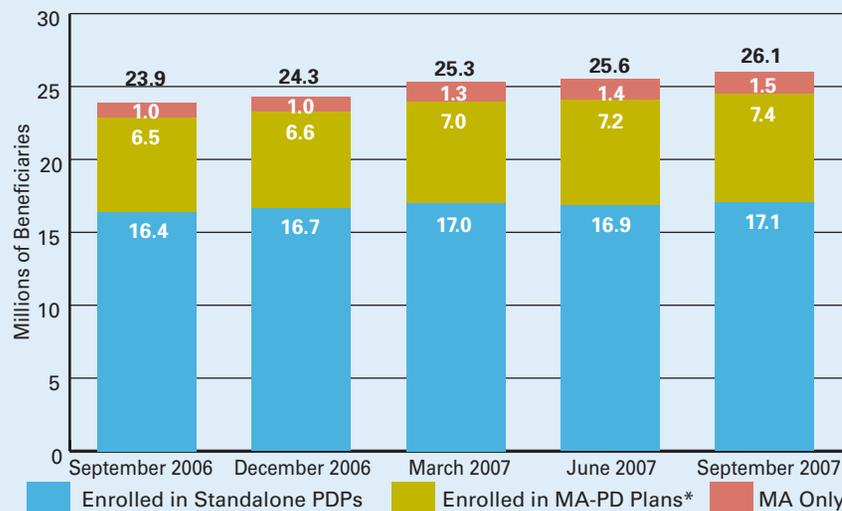
Government sponsored plans cover about two-thirds of persons over 65.



Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Medicare Advantage (MA) and Prescription Drug Plan (PDP) Enrollment, 2006-2007

Total enrollment in MA and Standalone PDPs have increased by almost 9 percent since September 2006.



	Percent Change 2006-2007
MA Only	48.3%
Enrolled in MA-PD Plans	14.6%
Enrolled in Standalone PDPs	4.3%
Total	8.9%

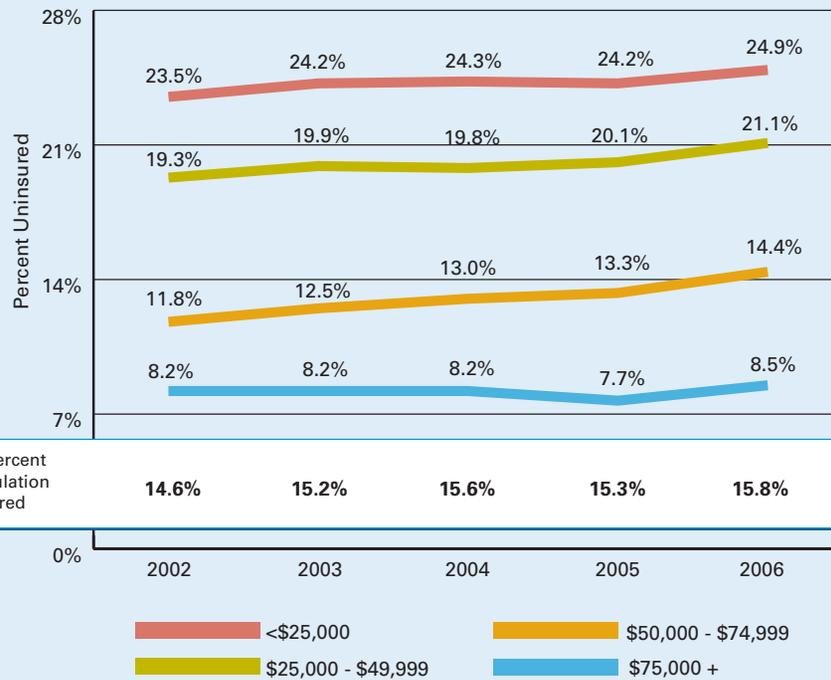
* MA-PD is a MA with PDP.

Source: Kaiser Family Foundation. Tracking Medicare Health and Prescription Drug Plans Monthly Reports. September 2006 – September 2007

This information adapted with permission from the Henry J. Kaiser Family Foundation. The Kaiser Family Foundation, based in Menlo Park, California, is a nonprofit, independent national healthcare philanthropy and is not associated with Kaiser Permanente or Kaiser Industries.

Percentage Uninsured Within Each Income Level, 2002-2006

After dropping slightly in 2005, the percentage of uninsured Americans rose half a percentage point in 2006.

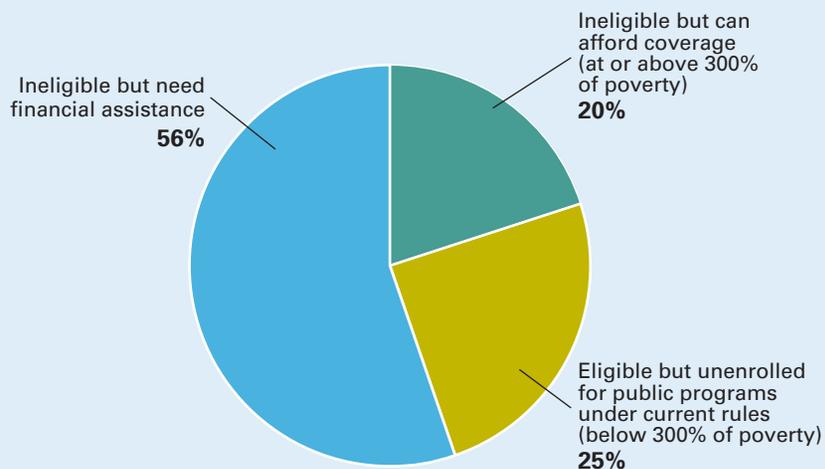


Income Level	Percentage Point Change 2002-2006
\$75,000 +	0.3%
\$50,000 - \$74,999	2.4%
\$25,000 - \$49,999	2.1%
<\$25,000	0.9%

Note: Income levels per the Income, Poverty and Health Insurance Coverage in the United States report.
 Source: U.S. Census Bureau (2007) Income, Poverty, and Health Insurance Coverage in the United States: 2006

Uninsured Americans by Eligibility for Medicaid and SCHIP and Affordability of Coverage, 2004

More than half of the uninsured population are ineligible for public programs but have difficulty affording health insurance coverage.

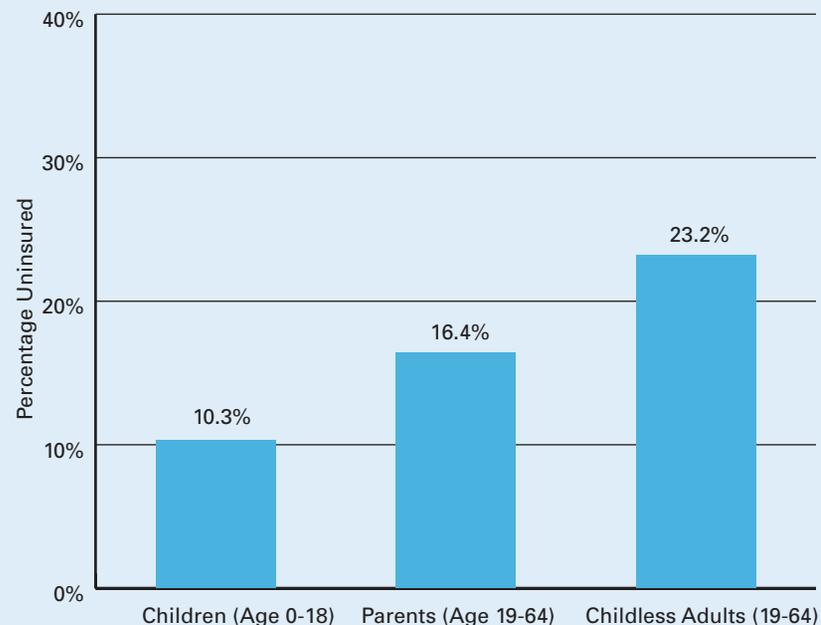


Note: Figures do not add up to 100% due to rounding.

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Shares of Uninsured Americans by Age and Parental Status, 2004

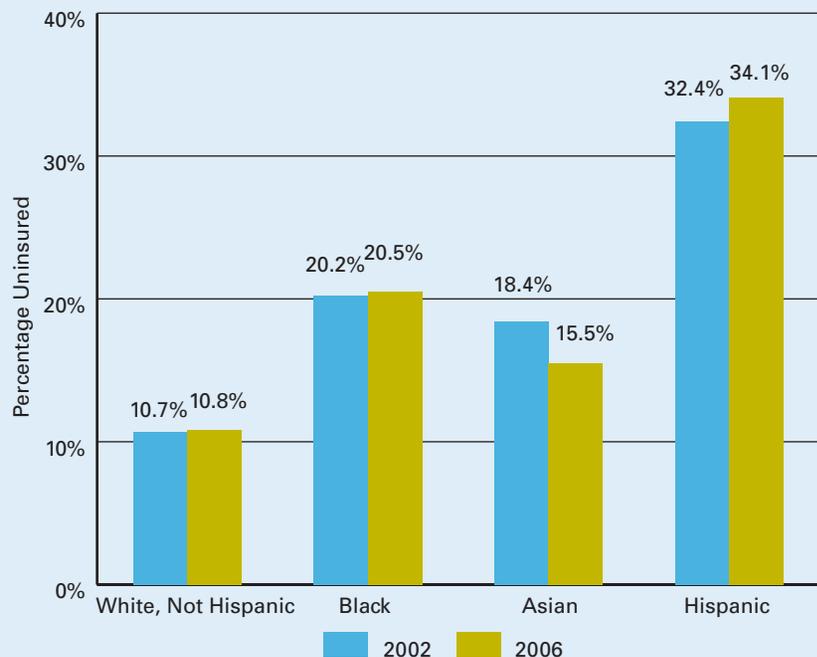
Lower uninsured rates are observed in children compared to adults because of Medicaid and SCHIP.



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Demographics of the Uninsured, 2002 and 2006

More than one in every three Hispanic adults and more than one in five African American adults were uninsured in 2006.



Note: Racial Classification per the Income, Poverty and Health Insurance Coverage in the United States report.

Source: U.S. Census Bureau (2007) Income, Poverty, and Health Insurance Coverage in the United States: 2002 and 2006

Percentage of Adults Facing Serious Problems Paying Medical Bills in the Past Two Years by Income Level, 2006

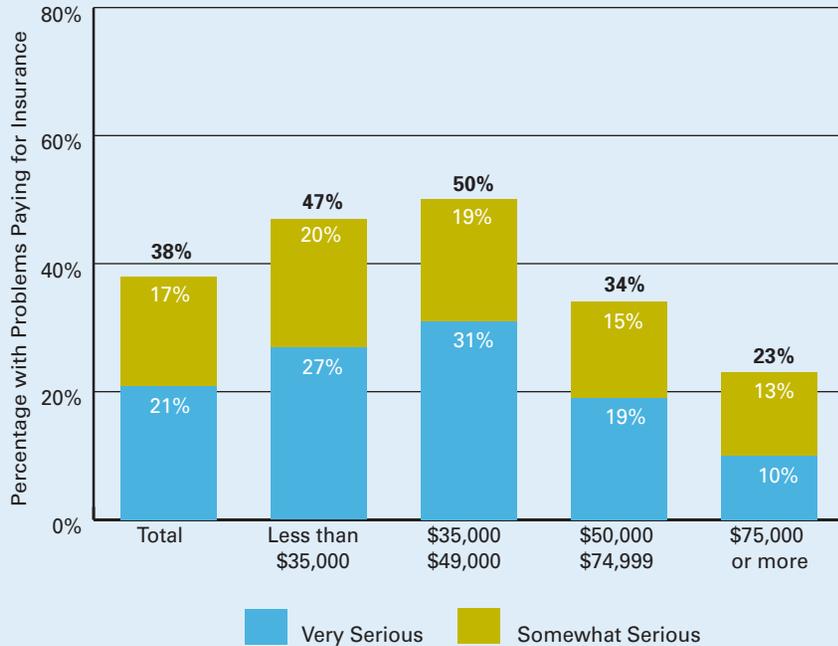
About half of adults with incomes of less than \$50,000 have experienced problems paying medical bills in past two years.



Source: C. Schoen, S. K. H. How, I. Weinbaum, J. E. Craig, Jr., and K. Davis, Public Views on Shaping the Future of the U.S. Health System, The Commonwealth Fund, August 2006

Percentage of Adults Facing Serious Problems Paying for Insurance in the Past Two Years by Income Level, 2006

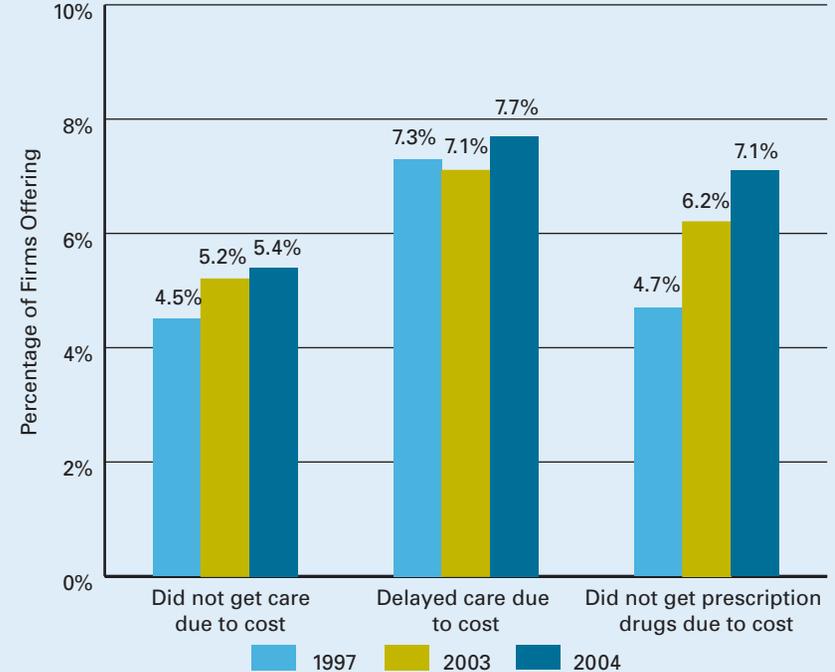
Fifty percent of adults with incomes of less than \$50,000 have experienced problems paying insurance in the past two years.



Source: C. Schoen, S. K. H. How, I. Weinbaum, J. E. Craig, Jr., and K. Davis, Public Views on Shaping the Future of the U.S. Health System, The Commonwealth Fund, August 2006

Reduced Access to Medical Care During the Past 12 Months Due to Cost, 1997-2004

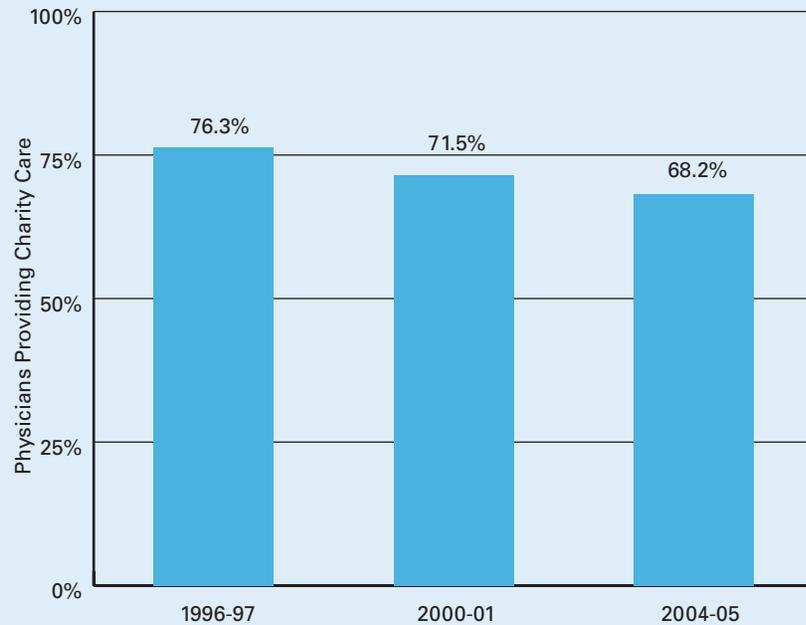
Since 1997, more Americans are not getting or are delaying appropriate healthcare or prescription drugs.



Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Proportion of U.S. Physicians Providing Charity Care, 1996-2005

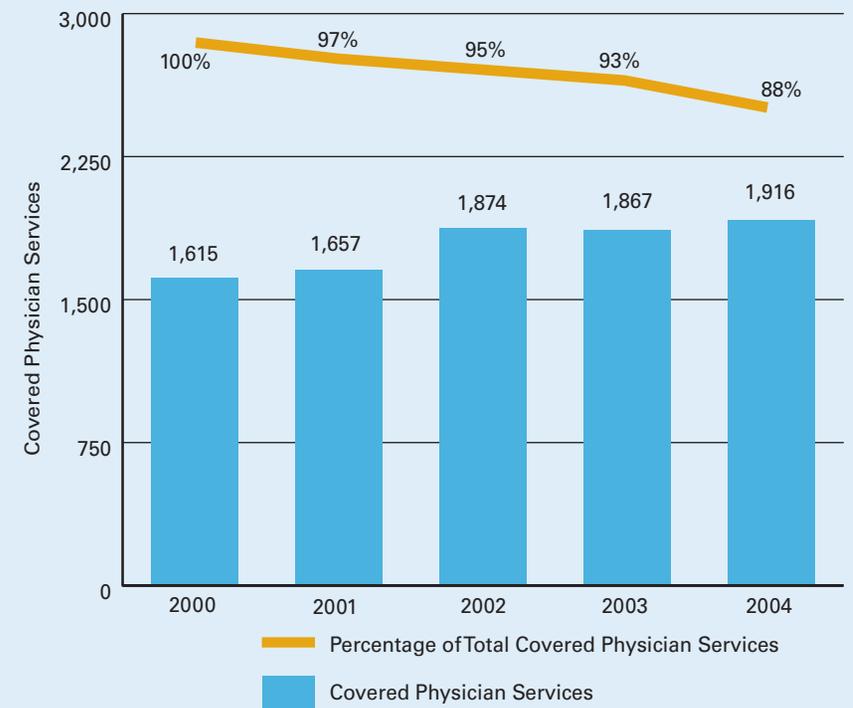
Fewer physicians are providing care at reduced or no cost.



Note: Charity care includes both free or reduced cost care.
 Source: P.J. Cunningham and J.H. May, "A Growing Hole in the Safety Net: Physician Charity Care Declines Again," *Center for Studying Health System Change*, Tracking Report No. 13, March 2006.
 Reprinted with permission of the Center for Studying Health System Change, Washington DC.
www.hschange.org

Changes in Medicare Covered Physician Services, 1997-2005

Medicare covers more physician services each year; however, the percentage of covered physician services has declined.



Source: Congressional Budget Office (2007) *Factors Underlying the Growth in Medicare's Spending for Physicians' Services*

Engaging and Empowering Consumers

Section 3

Cost	
Average Healthcare Expenditures as Percent of Before-tax Income, 2005.	41
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Summary

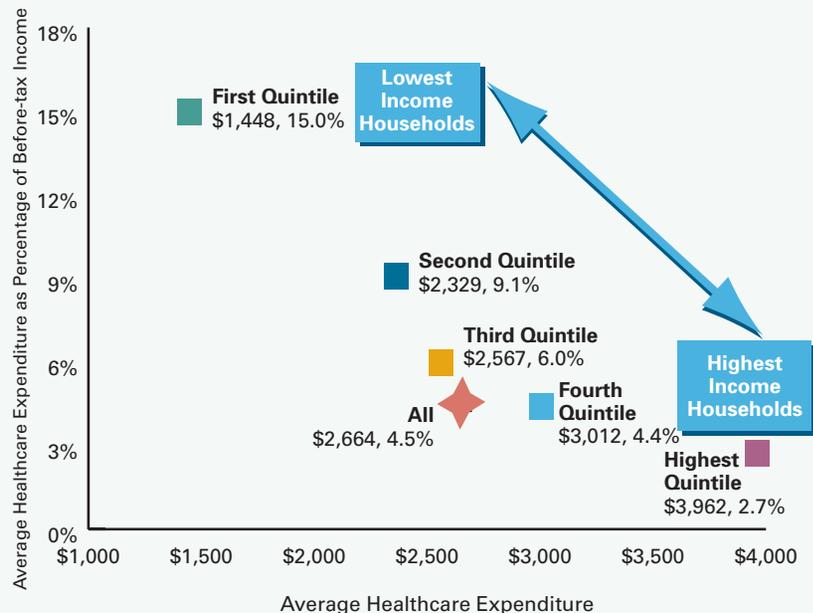
It is more important today than ever before for consumers to be engaged and empowered in dealing with healthcare costs and information – just as they are when it comes to housing, food, transportation and other important consumer issues.

The Blues and other healthcare companies have launched a number of initiatives to help individual consumers become better healthcare decision-makers such as offering more quality and cost information. There are also more health and wellness programs being offered to consumers – including many that provide incentives to promote healthy lifestyles.

Consumer engagement is especially important for those choosing to participate in consumer driven health plans with savings options and savings accounts (e.g., Health Savings Accounts (HSAs), Health Reimbursement Accounts (HRAs) and Flexible Spending Accounts (FSAs)). Individuals enrolled in consumer directed health plans are more likely to take advantage of programs offered by healthcare organizations than those enrolled in traditional health plans.

Average Healthcare Expenditures as Percent of Before-tax Income, 2005

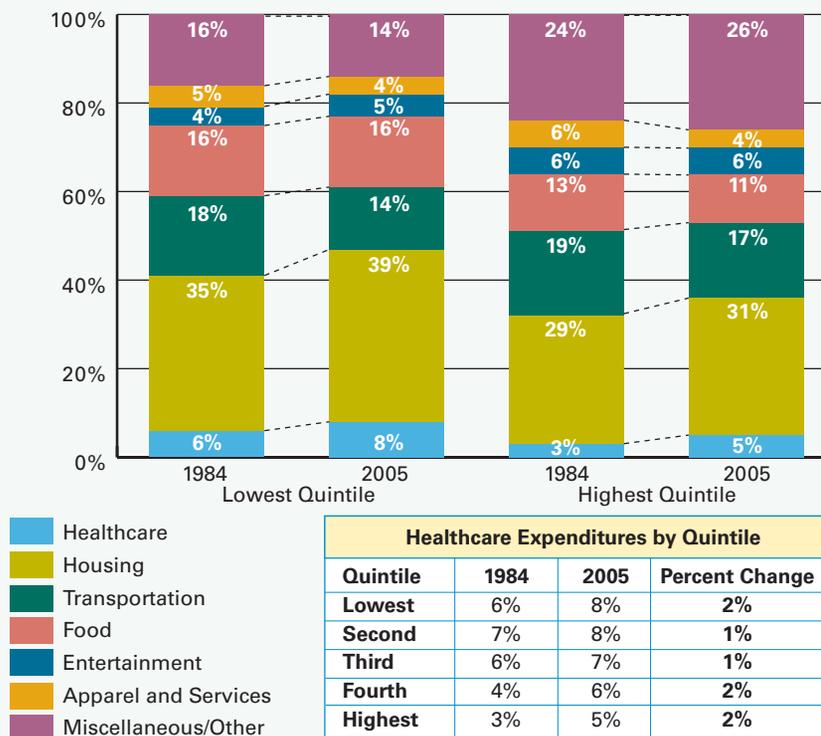
As a percentage of before-tax-income, the lowest income households spend five times more on healthcare than the highest income households but, in absolute dollar terms, spend less than half the amount of the highest income households.



Note: Quintiles per the Consumer Expenditures Survey
Source: U.S. Department of Labor, Bureau of Labor Statistics (2007) Consumer Expenditures Survey.

Percentage of Consumer Expenditures by Type, Lowest and Highest Quintiles, 1984 and 2005

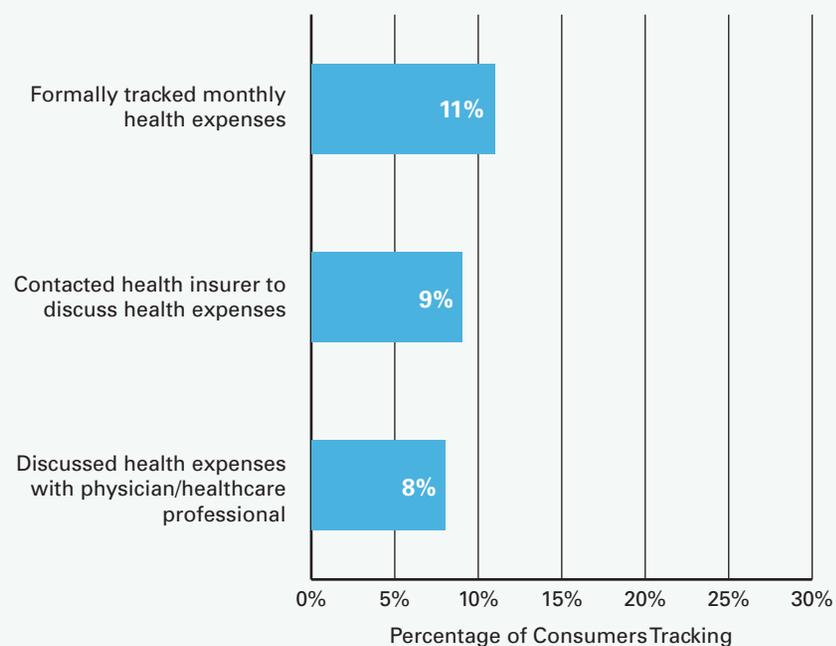
As a percentage of total expenditures, consumers are spending more on healthcare.



Note: Quintiles per the Consumer Expenditures Survey
Source: U.S. Department of Labor, Bureau of Labor Statistics (2007) Consumer Expenditures Survey

Percent of Consumers Tracking Health-related Expenses, 2007

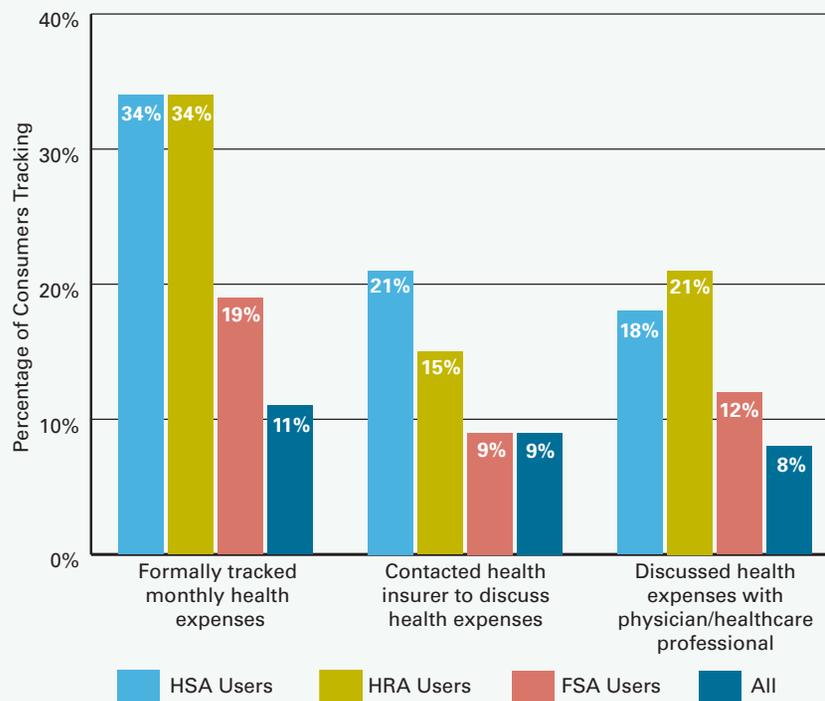
As a result of rising healthcare costs, consumers are beginning to track health-related expenses.



Base: 5,149 U.S. online non-elderly commercially insured consumers
Source: Are Consumers embracing the Convergence of Healthcare and Finance?, Forrester Research, Inc., August 2007

Percent of Consumers Tracking Health-related Expenses, 2007

Consumers with health-related accounts are more keen on tracking healthcare expenses.



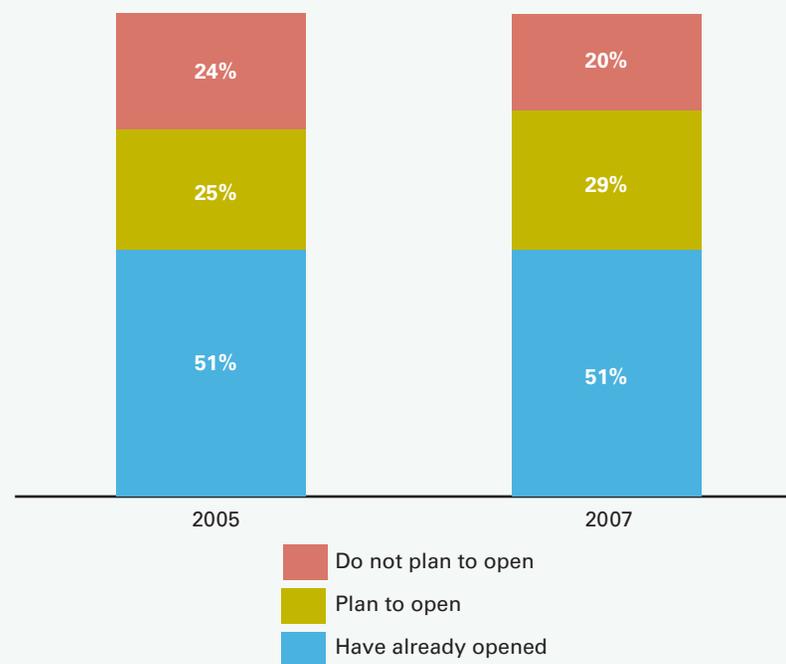
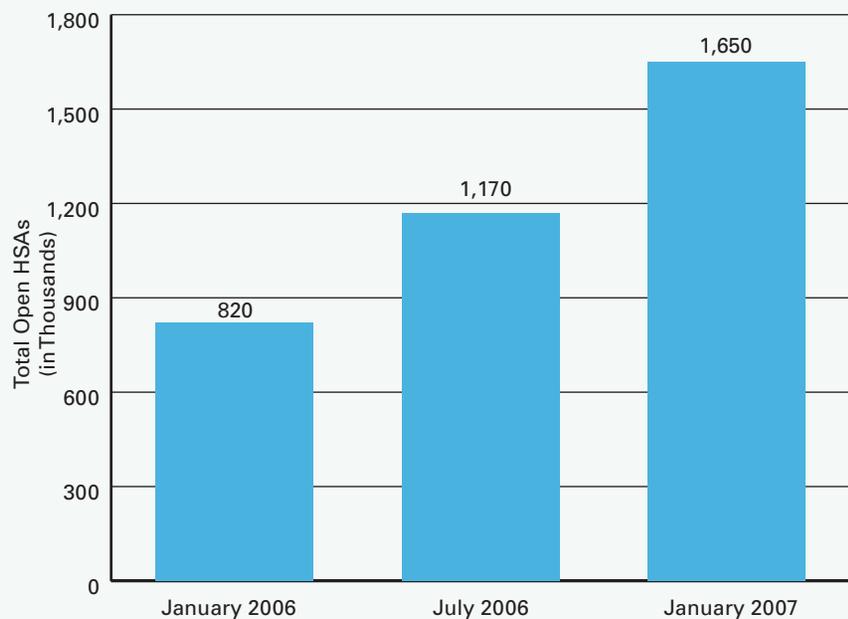
Base: 584 FSA users, 145 HRA users and 175 HSA users from a pool of 5,149 U.S. online non-elderly commercially insured (multiple responses selected)

Source: Are Consumers embracing the Convergence of Healthcare and Finance?, Forrester Research, Inc., August 2007

Growth in Number of HSAs, 2006-2007

Percent of Eligible Consumers Who Have Opened an HSA, 2007

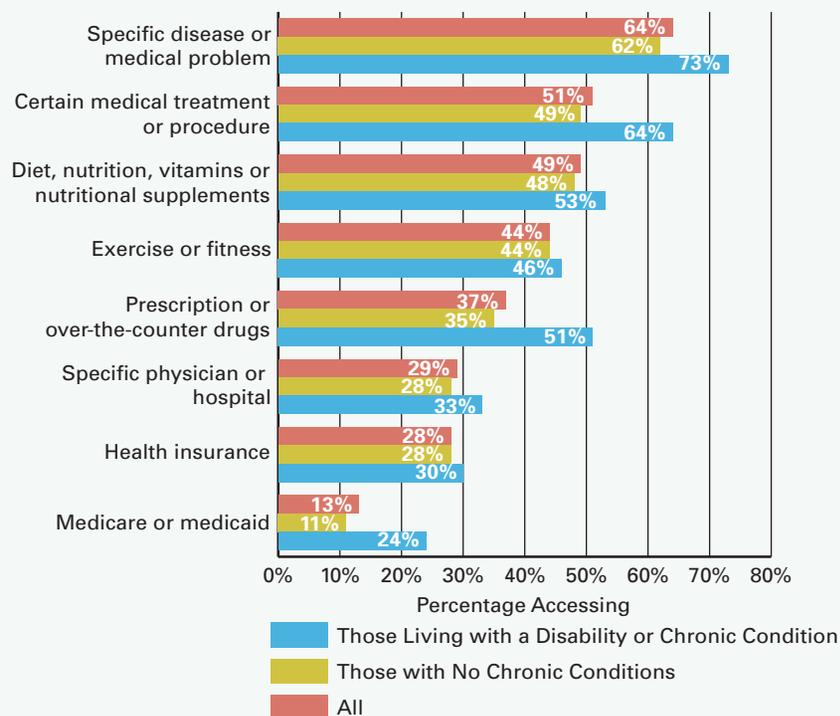
Consumers are opening health savings accounts to track and manage health-related expenses.



Sources: Atlantic Information Services (March 2007), Blue Cross and Blue Shield Association (2007) CDHP Member Experience Survey

Percentage of Internet Users Accessing Health Information on the Web, 2006

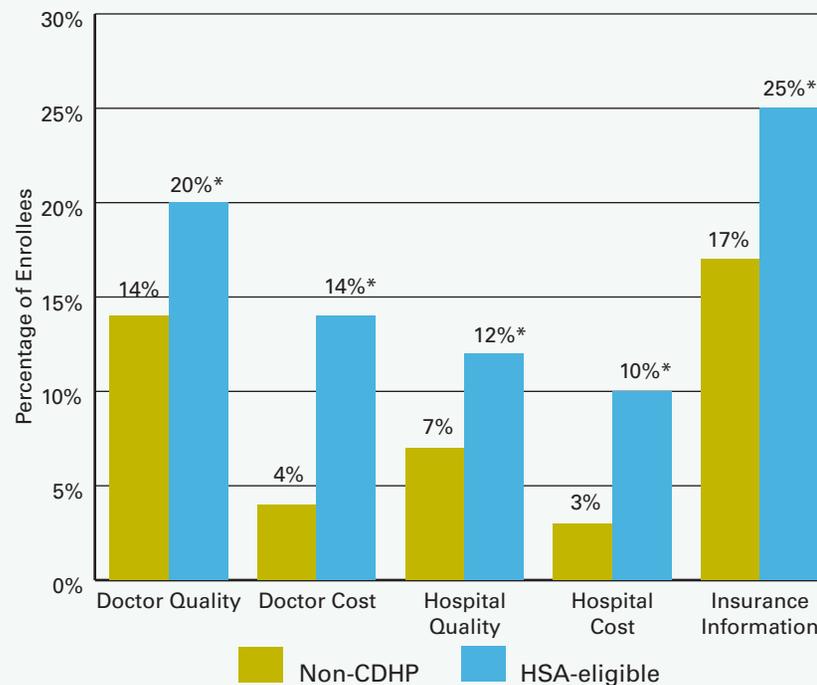
Consumers, especially those with disabilities or chronic conditions, are accessing health information online.



Source: Fox, S. (2007) "E-patients with a Disability or Chronic Disease." Pew Internet & American Life Project © 2007 Pew Internet & American Life Project

Utilization of Health Information by Type of Coverage, 2007

CDHP enrollees are more likely than non-CDHP members to research health information.

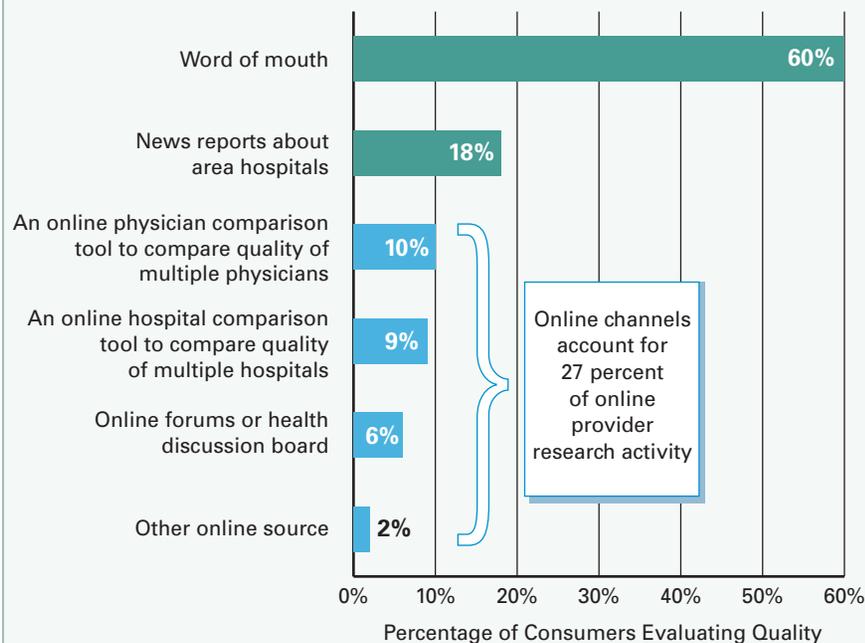


*Significantly different from Non-CDHP result at a 95 percent confidence level

Source: Blue Cross and Blue Shield Association (2007) CDHP Member Experience Survey

How Consumers Evaluate the Quality of a Healthcare Provider, 2007

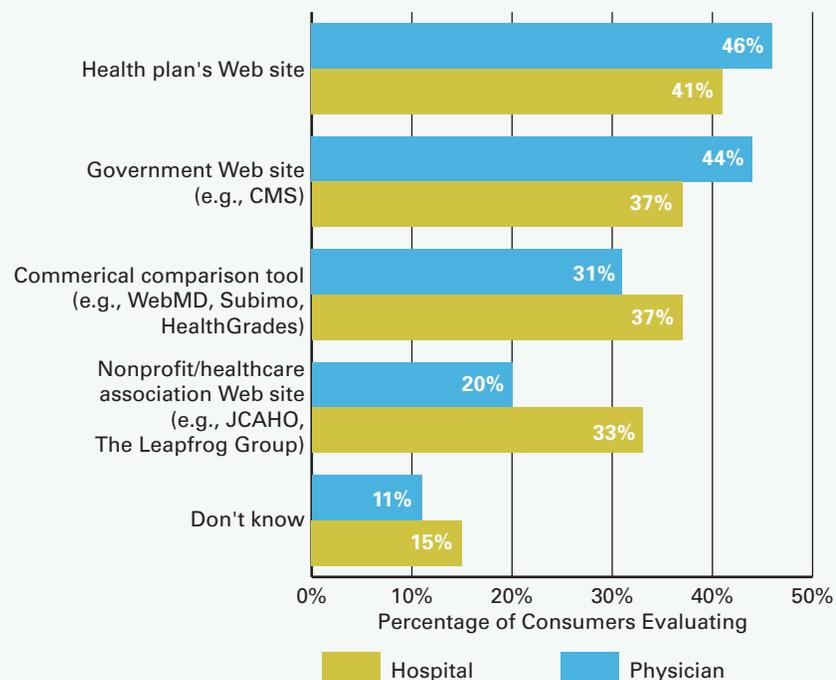
Consumers mainly use word of mouth to evaluate provider quality but more than one in every four use online tools for this evaluation.



Base: 5,001 U.S. online consumers (multiple responses selected)
Source: Healthcare Provider Tools Sway Consumers' Choices, Forrester Research, Inc., July 2007

Online Consumers' Preferences in Evaluating Provider Quality, 2007

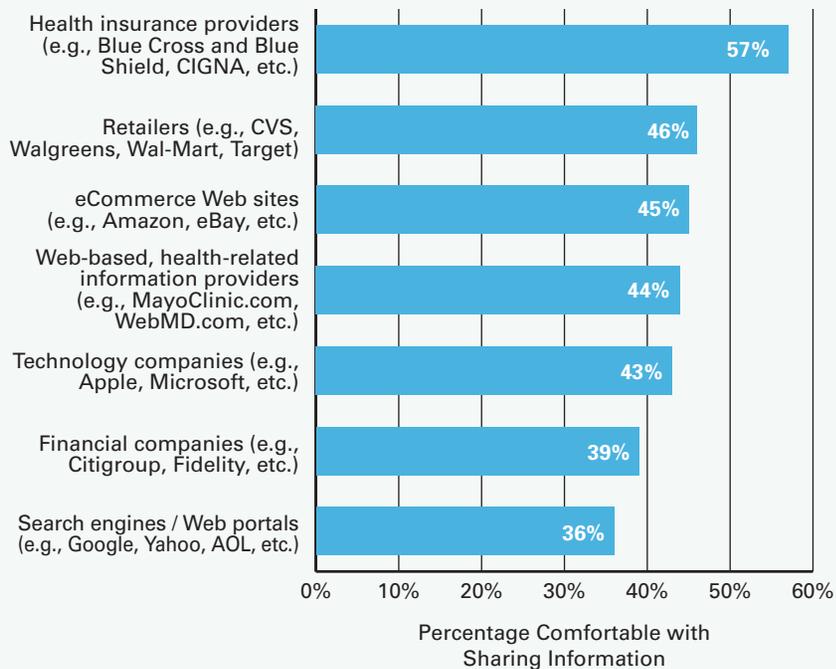
Consumers who evaluate provider quality online rely on their health plan's Web site the most.



Base: 466 U.S. online consumers who have used a hospital comparison tool and 507 U.S. online consumers who have used a physician comparison tool
Source: Healthcare Provider Tools Sway Consumers' Choices, Forrester Research, Inc., July 2007

Consumers' Comfort With Sharing Personal Information, 2007

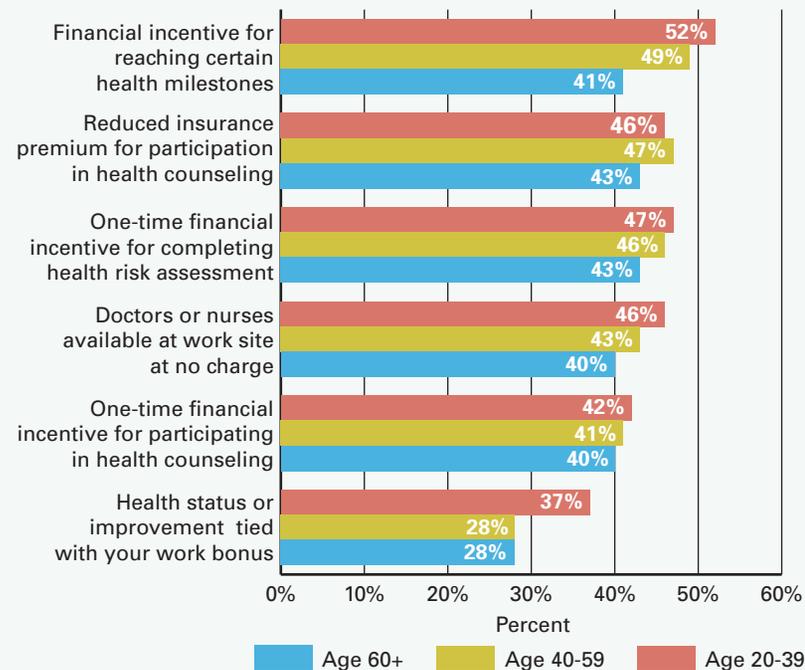
Health insurance is the only industry where the majority of consumers are comfortable sharing information in order to receive information tailored to their needs.



Source: Blue Cross and Blue Shield Association (2007) Brand Consumer Survey

Types of Wellness Incentives Encouraging Employee Participation, 2007

Younger employees show more interest in wellness incentives.



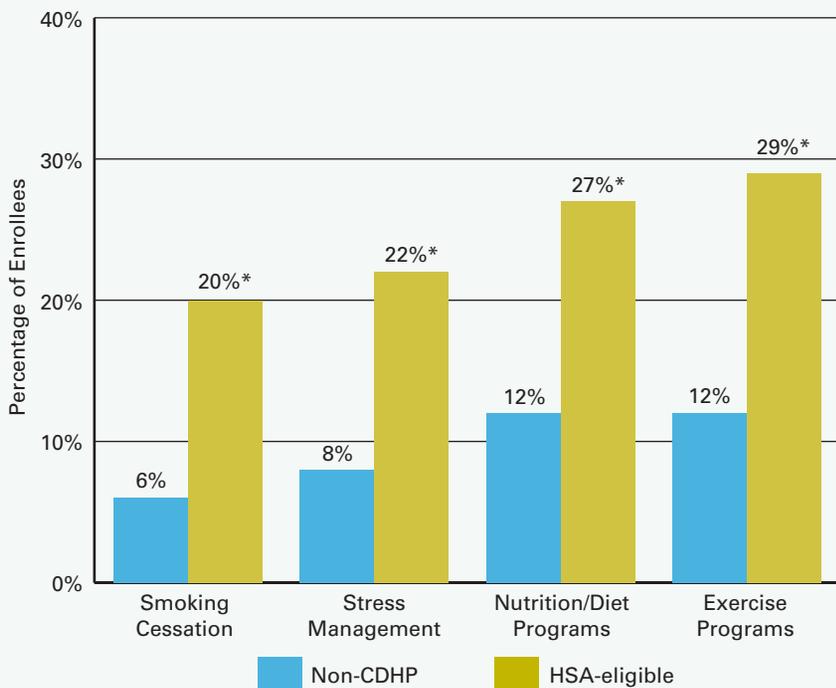
Note: On a scale of 1 to 6, encouraged employees are those providing a response of 5 or 6.

Base: Online U.S. individuals who are employed by a company

Source: Crafting the Right Wellness Incentives, Forrester Research, Inc., March 2007

Percentage of Consumers Indicating Participation in Health Management Programs, 2007

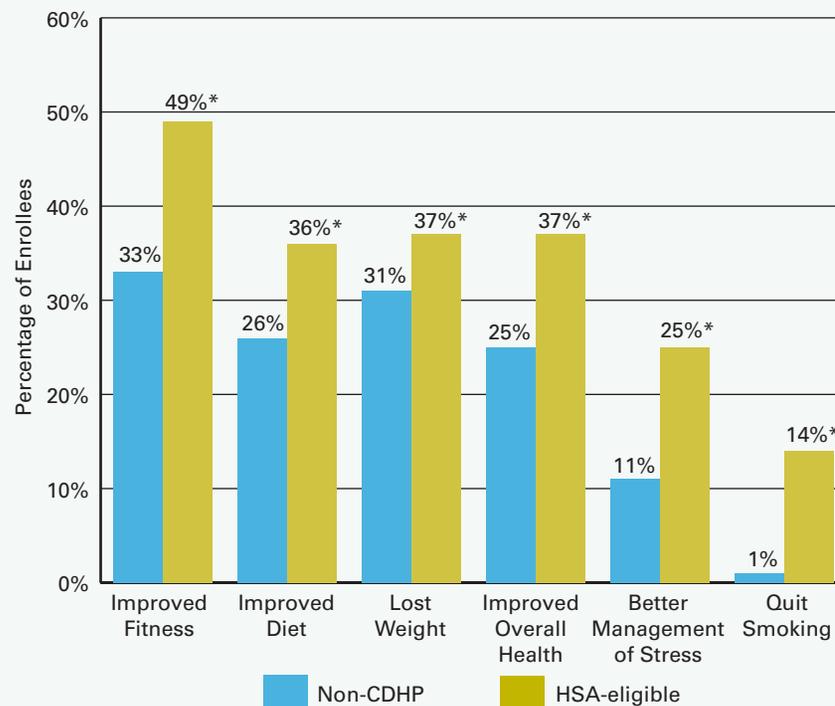
CDHP consumers are more engaged in wellness programs.



*Significantly different from Non-CDHP result at a 95 percent confidence level
 Note: Includes both employer and health insurer sponsored wellness programs
 Source: Blue Cross and Blue Shield Association (2007) CDHP Member Experience Survey

Reported Results Due to Participation in Available Health/Wellness Activities by Plan Type, 2007

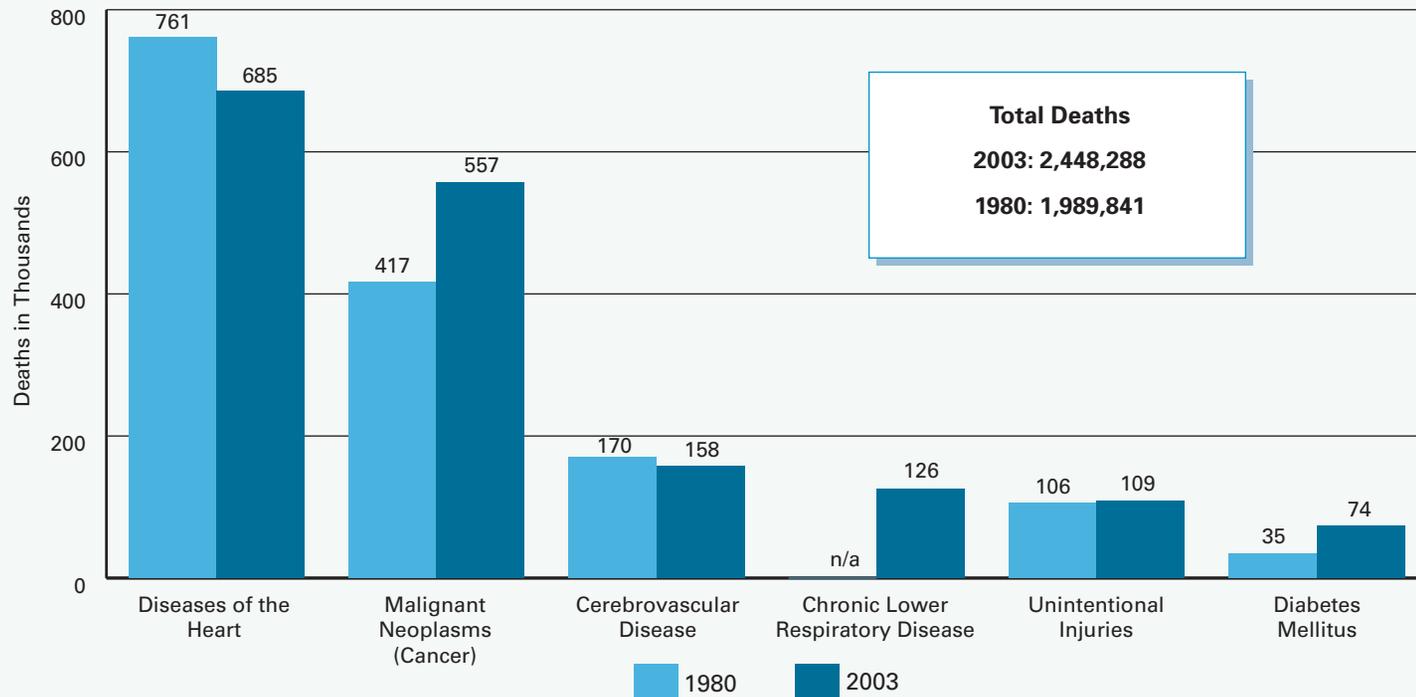
CDHP enrollees who participate in health management programs are more likely to see results.



*Significantly different from Non-CDHP result at a 95 percent confidence level
 Source: Blue Cross and Blue Shield Association (2007) CDHP Member Experience Survey

Leading Causes of Death, 1980 and 2003

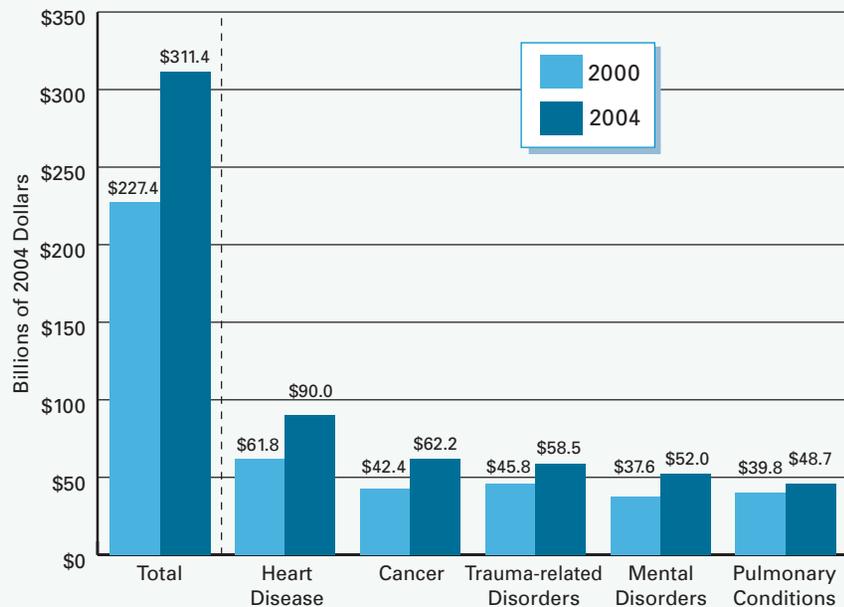
The top two causes of death – heart disease and cancer – accounted for roughly one-half of all deaths in 2003.



Source: Centers for Disease Control and Prevention (2005) Health, United States, 2006

Expenditures for the Top Five Most Costly Conditions, 2000 and 2004

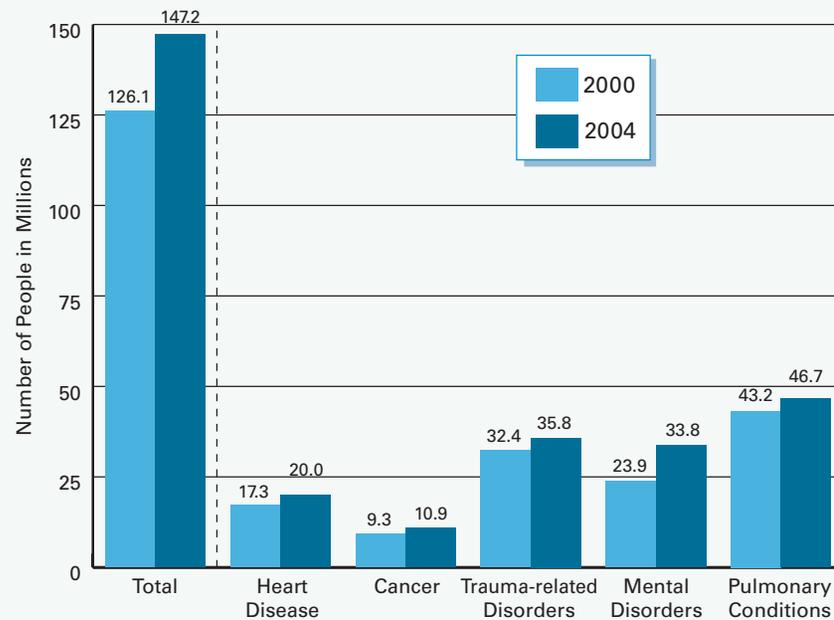
Expenditures for the top five costly conditions increased from \$227 billion in 2000 to \$311 billion in 2004, an increase of 37 percent.



Source: Agency for Healthcare Research and Quality (2007) The Five Most Costly Conditions, 2000 and 2004: Estimates for the U.S. Civilian Noninstitutionalized Population, March 2007

Number of People with Expenses for the Top Five Most Costly Conditions, 2000 and 2004

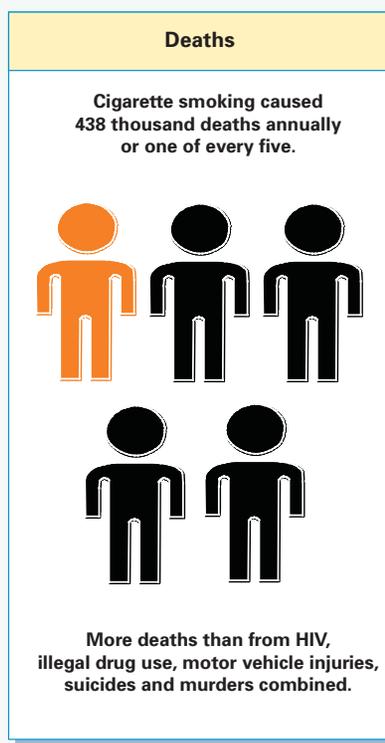
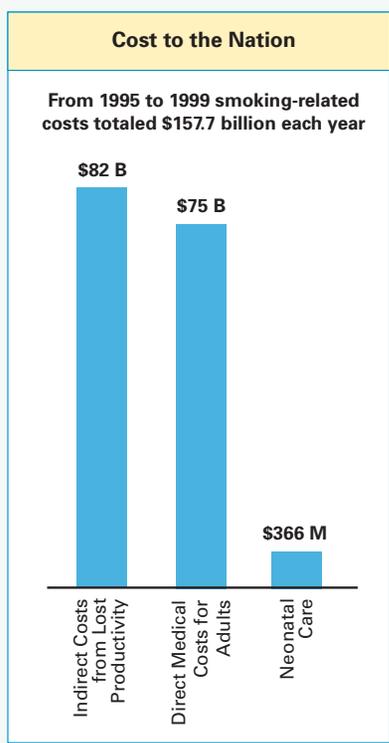
The prevalence of the top five most costly conditions increased by nearly 20 million between 2000 and 2004.



Source: Agency for Healthcare Research and Quality (2007) The Five Most Costly Conditions, 2000 and 2004: Estimates for the U.S. Civilian Noninstitutionalized Population, March 2007

Smoking: Cost in Dollars, Deaths and Associated Diseases

Smoking accounts for one in every five deaths and costs the nation nearly \$160 billion annually.

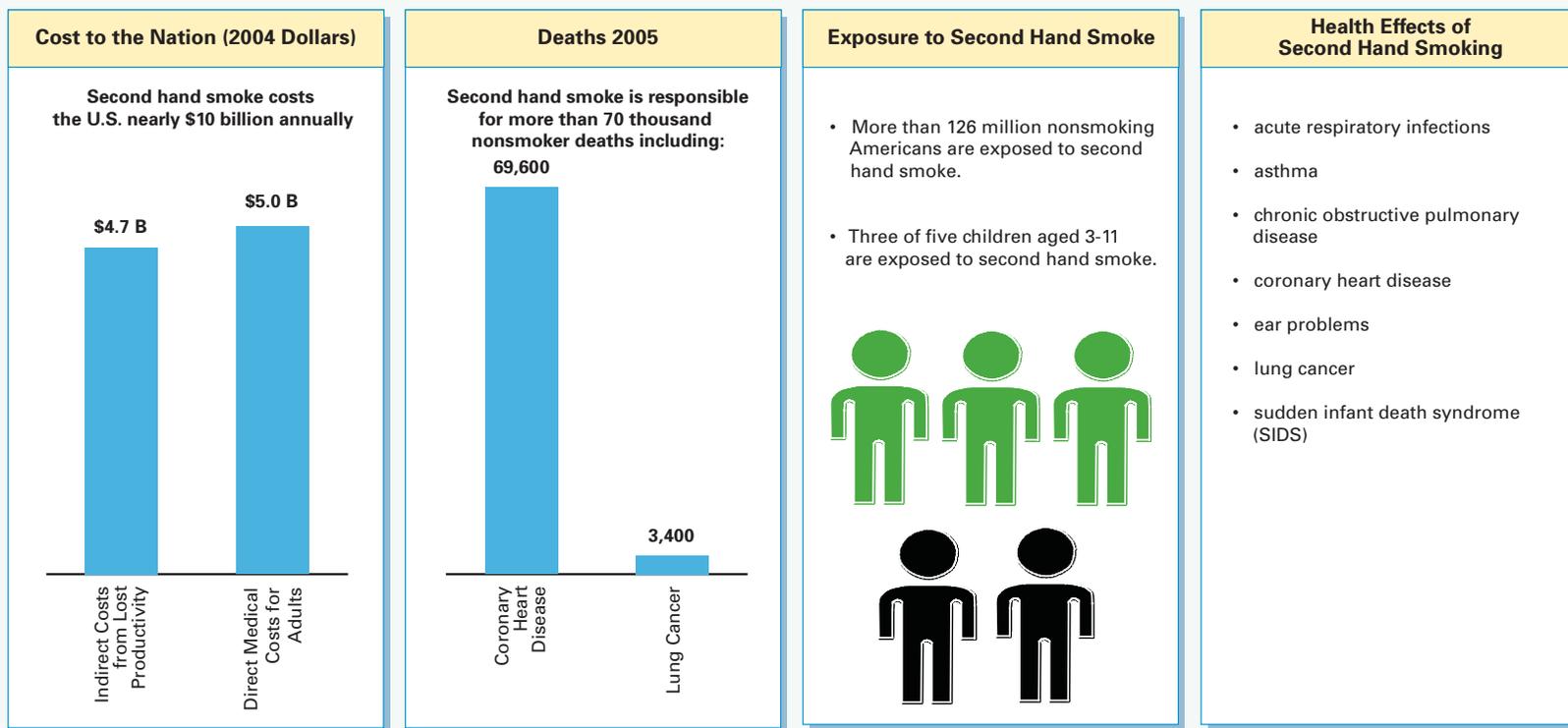


- Associated Illnesses**
- Cigarette smoking increases the risk of:
- dying from lung cancer by 22
 - dying from coronary heart disease by 2 to 4
 - dying from chronic obstructive lung disease by 10
 - suffering a stroke by 2
 - developing a peripheral vascular disease by 10

Source: Centers for Disease Control and Prevention (2006) Smoking and Tobacco Use Fact Sheet – Health Effects of Cigarette Smoking, December 2006; Centers for Disease Control and Prevention (2006) Smoking and Tobacco Use Fact Sheet – Cigarette Smoking-related Mortality, September 2006; Centers for Disease Control and Prevention (2006) Smoking and Tobacco Use Fact Sheet – Tobacco-related Mortality, September 2006; Centers for Disease Control and Prevention (2004) The Health Consequences of Smoking: What it Means to You.

Second Hand Smoke: Cost in Dollars, Deaths, Prevalence and Associated Diseases

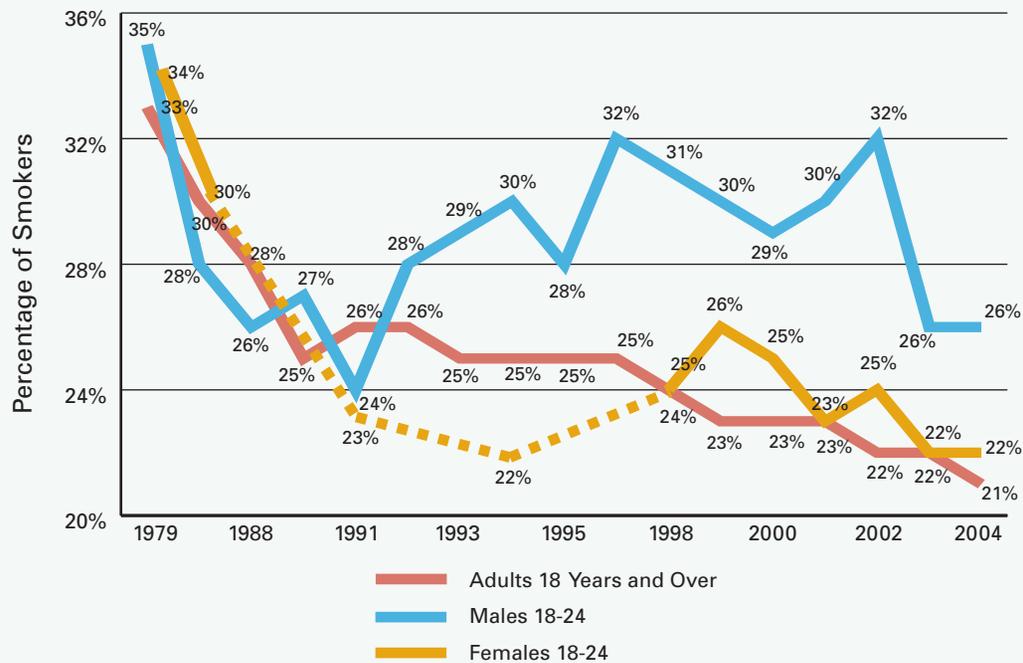
Second hand smoke is responsible for nearly \$10 billion annually in costs and for numerous adverse health effects.



Source: Centers for Disease Control and Prevention (2006) Smoking and Tobacco Use Fact Sheet – Secondhand Smoke. September 2006; Centers for Disease Control and Prevention (2006) Smoking and Tobacco Use Fact Sheet – Trends in Secondhand Smoke Exposure Among U.S. Nonsmokers: Progress and Gaps. October 2006; Centers for Disease Control and Prevention (2006) Smoking and Tobacco Use Fact Sheet – Secondhand Smoke Causes Heart Disease. May 2007; Behan, DF. (2005) "The Economic Effects of Environmental Tobacco Smoke." Society of Actuaries. Copyright by the Society of Actuaries, Schaumburg, Illinois, Reprinted with Permission.

Cigarette Smoking in the U.S., 1979-2004

Cigarette smoking among all adults over age 18 continues to be on the decline.

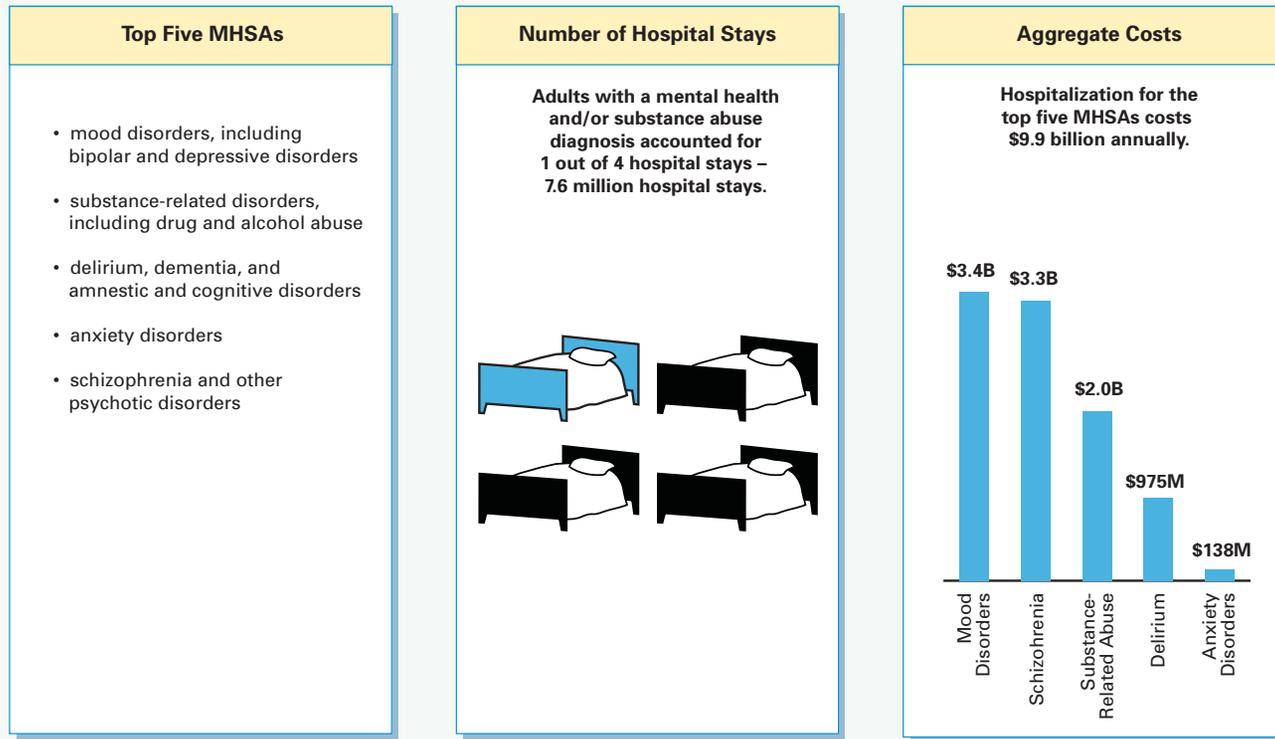


Note: Percentages for adults 18 years and over are age-adjusted to the 2000 standard population using five age groups: 18-24 years, 25-34 years, 35-44 years, 45-64 years and 65 years and over. Cigarette smoking among adults 18 years and over is defined as those who have ever smoked 100 cigarettes in their lifetime and now smoke every day or some days.

Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Mental Health and Substance Abuse (MHSA) Disorders: Types, Prevalence and Costs

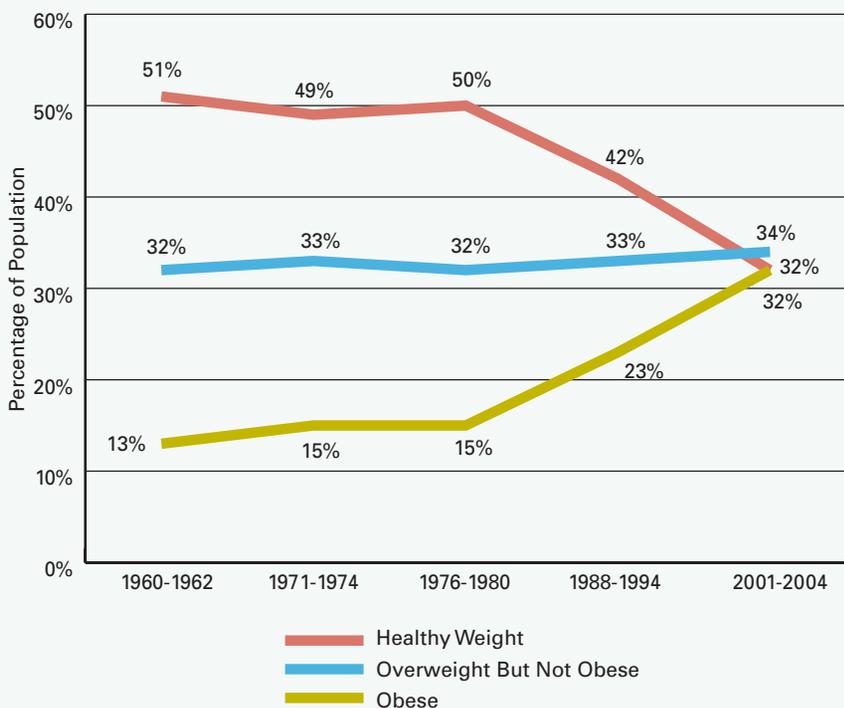
Mental health and substance-related abuse disorders cost the nation almost \$10 billion annually.



Source: Agency for Healthcare Research and Quality (2007) Care of Adults with Mental Health and Substance Abuse Disorders in U.S. Community Hospitals, 2004

Individuals Age 20-74 by Weight Status, 1960-2004

For the first time, the proportion of individuals with healthy weight is about equal to those who are obese.

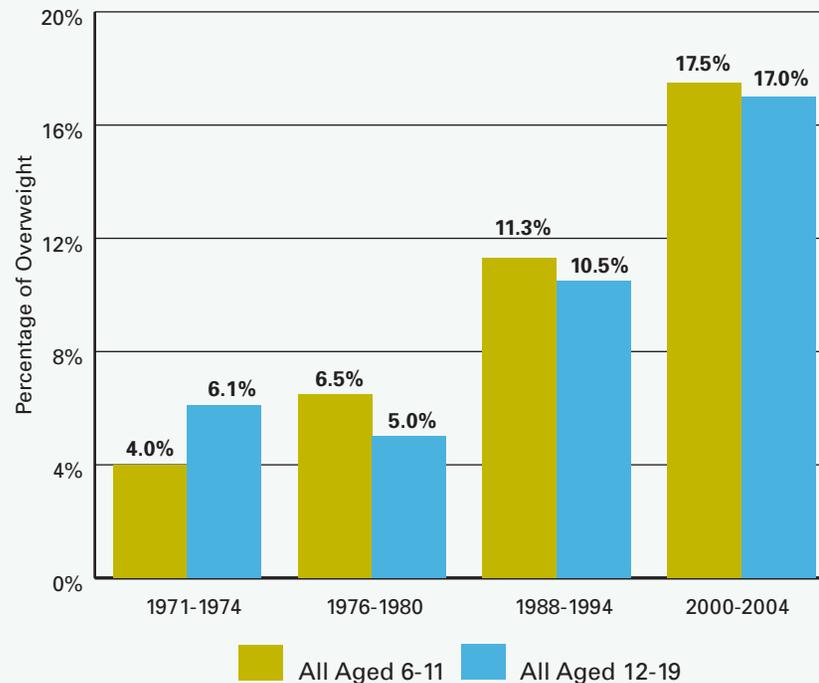


Note: Overweight but not obese is defined as having a body mass index (BMI) greater than or equal to 25 kg/m² but less than 30 kg/m²; obese is defined as a BMI greater than or equal to 30 kg/m²; and healthy weight is defined as having a BMI of 18.5 kg/m² to less than 25 kg/m². Numbers do not add up due to a gap between healthy weight and overweight.

Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Children and Adolescents Considered Overweight by Age Group, 1971-2004

The percentage of overweight children and adolescents has increased by almost three times over the past 30 years.

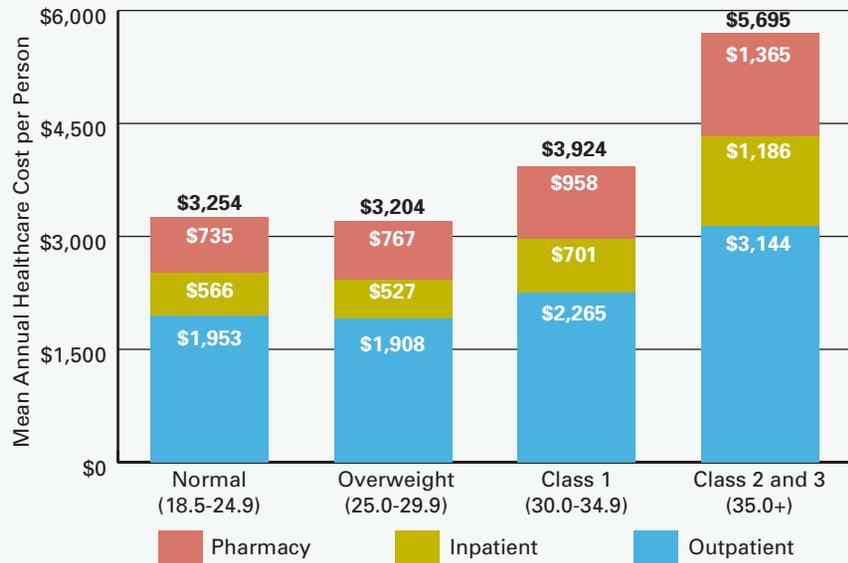


Note: Overweight is defined as body mass index (BMI) at or above the sex- and age-specific 95th percentile BMI cutoff points from the CDC Growth Charts: United States.

Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Relationship Between BMI and Healthcare Costs, 2007

Moderate (class 1) and severe (class 2) obesity is associated with 21 percent and 75 percent higher healthcare costs, respectively, per person.



Source: Muse, D. (2007) Obesity in the Workforce: Health Effects and Healthcare Costs. Thomson Healthcare



Collaborating with Providers

Section 4

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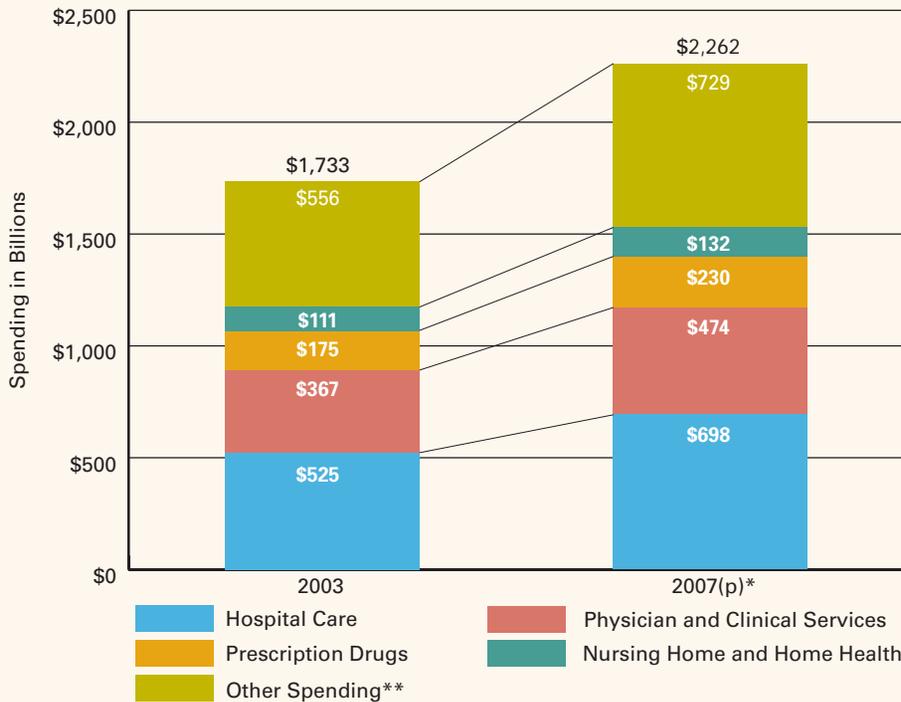
Hospitals, physicians and other healthcare providers are seeing more patients and performing more procedures than ever before.

Hospital construction continues across the country – up more than 75 percent in the last five years. At the same time, more treatments and surgeries are being performed on an outpatient basis than in years past – and the number of non-traditional care centers increases every year. For example, the number of retail clinics is projected to more than triple in 2007 from 2006. Specialists are also playing a larger role than in previous years.

Pharmacy expenditures continue to be an important factor in healthcare spending. More prescriptions are being dispensed – 3.7 billion in 2007, up nearly 200 million from 2006. Several popular brand-name drugs are covered by patents due to expire in the next few years, potentially saving consumers money.

NHE by Use of Funds, 2003-2007

Since 2003, spending in each category of the NHE has increased; however, as a percent of NHE, spending in each category has been stable.



Uses of Funds	CAGR 2003-2007
Hospital Care	7.3%
Prescription Drugs	7.1%
Physician and Clinical Services	6.6%
Nursing Home and Home Health	4.6%
Other Spending**	7.0%
Total NHE	6.9%

*Projected by CMS

**Other spending includes dental services, other professional services, durable medical products, over-the-counter medicines and sundries, public health activities, research and construction, and government administration and net costs of private health insurance.

Source: Centers for Medicare and Medicaid Services (2007)

Hospital Payments by Source of Funds, 2003-2007

More than half of total hospital spending comes from public sources, but the growth of private health insurance and out-of-pocket payments has outpaced growth in public payments.



- Total Public Payments
- Private Health Insurance
- Out-of-pocket Payments
- Other Private

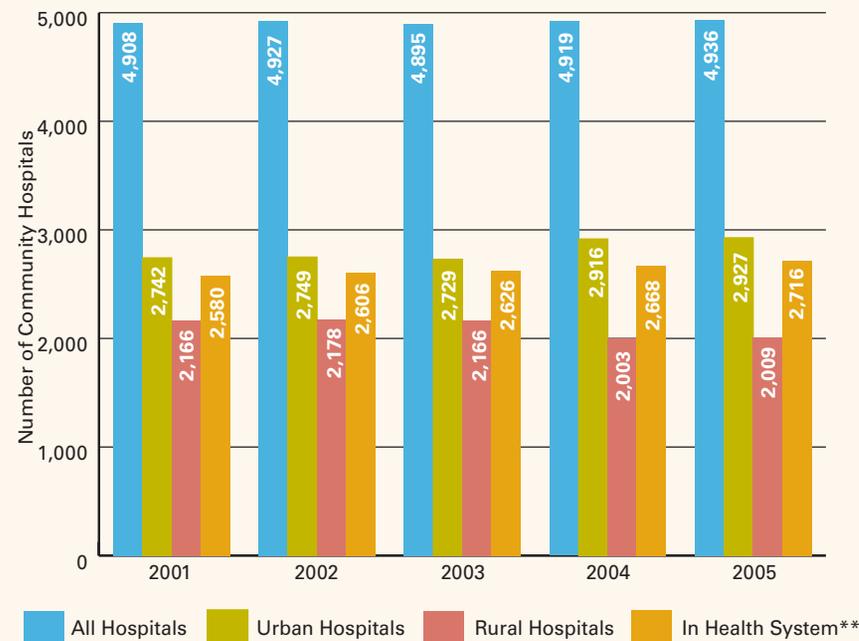
Source of Funds	CAGR 2003-2007
Out-of-pocket Payments	9.1%
Private Health Insurance	7.6%
Total Public Payments	7.0%
Other Private	8.0%
Total Hospital Payments	7.3%

*Projected by CMS

Source: Centers for Medicare and Medicaid Services (2007)

Number of Community Hospitals 2001-2005

The number of community hospitals has been stable between 2001 and 2005.



*All nonfederal, short-term general and specialty hospitals whose facilities and services are available to the public.

**Hospitals that are part of a corporate body that may own and/or manage health provider facilities or health-related subsidiaries as well as non-health-related facilities including freestanding and/or subsidiary corporations

Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Hospital Construction Spending, 2002-2006

Hospital construction has increased substantially, up more than 75 percent since 2002.

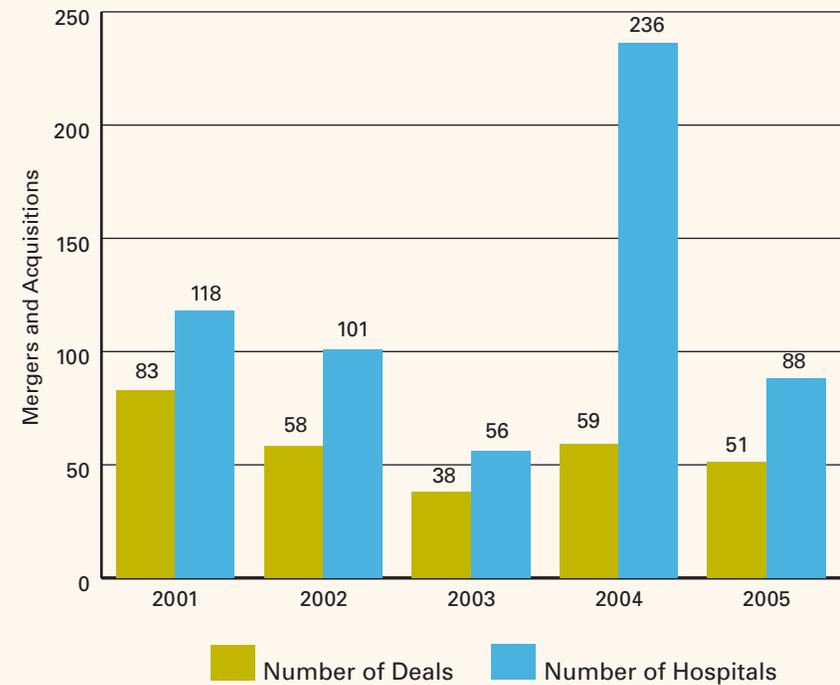


*Projected

Source: Medicare Payment Advisory Commission (2007) Healthcare Spending and the Medicare Program, June 2007

Hospital Mergers and Acquisitions, 2001-2005

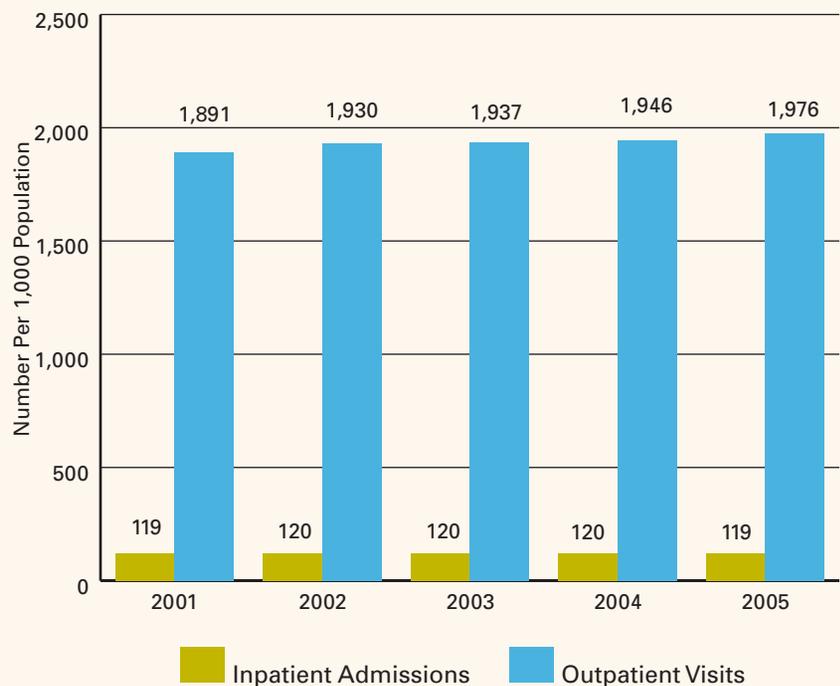
In 2005, 51 hospital merger and acquisition deals affected a total of 88 hospitals, more in line with activity seen between 2001 and 2003.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems, Irving Levin Associates, Inc.

Number of Inpatient Admissions and Outpatient Visits per 1,000 Population, 2001-2005

Both inpatient admissions and outpatient visits have been stable.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Hospital Expenses and Length of Stay, 2001-2005

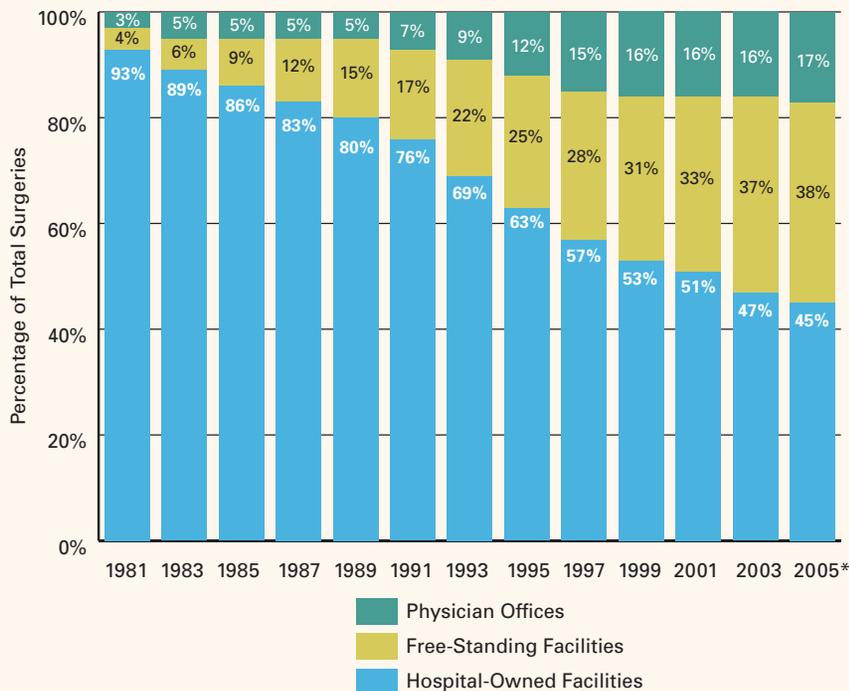
Since 2001, the average length of a hospital stay has been constant, while the cost-per-stay has increased at a CAGR of 5.2 percent.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Proportion of Total Surgeries by Site of Care, 1981-2005

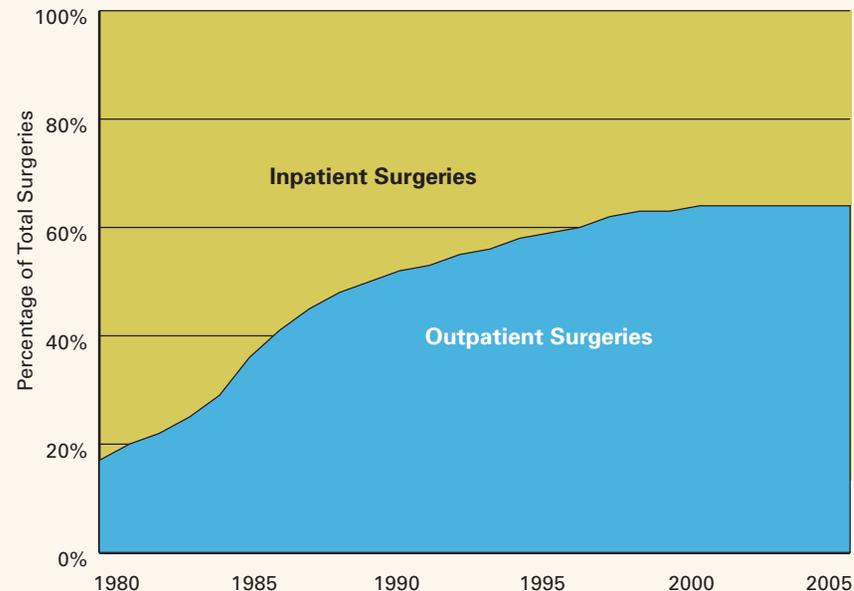
The proportion of surgeries conducted in physicians' offices and in free-standing facilities has increased continuously since the early 1980s.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Proportion of Hospital Outpatient and Inpatient Surgeries, 1980-2005

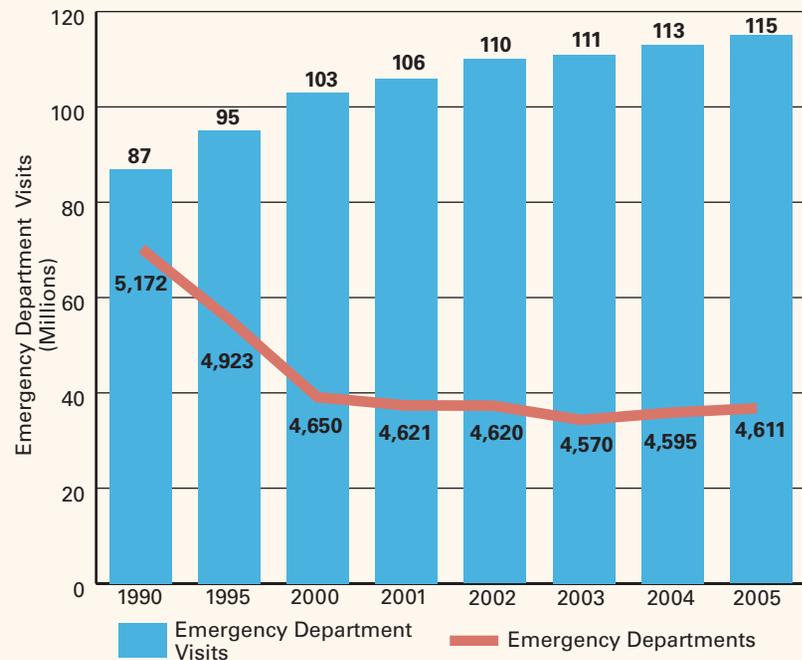
Since the late 1990s, more than 60 percent of hospital surgeries have been performed in an outpatient setting.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Emergency Departments and Emergency Department Visits in Community Hospitals, 1990-2005

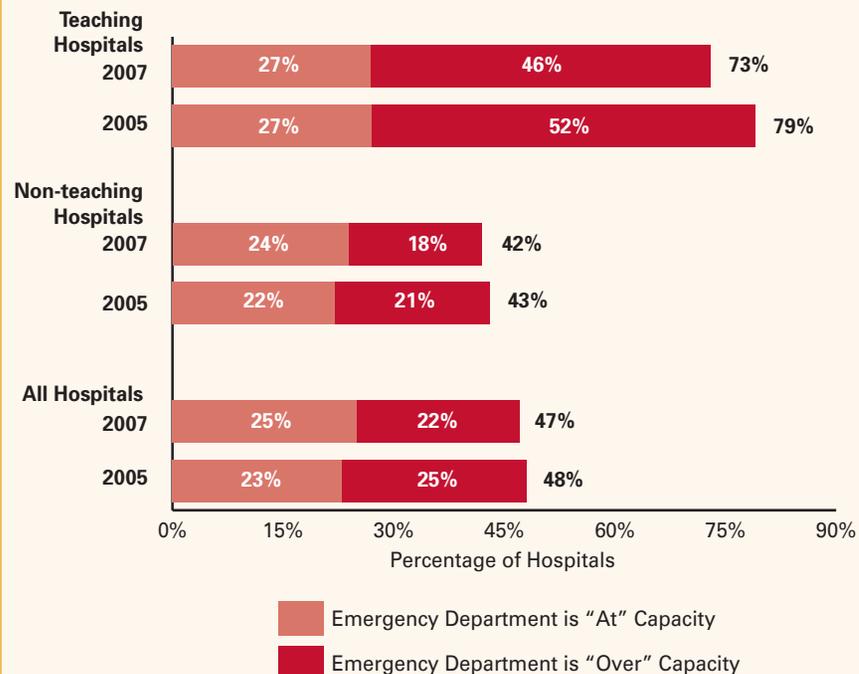
Every year since 1990, emergency department visits have grown, but the number of emergency departments has been stable since 2002.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Percent of Hospitals Reporting Emergency Department Capacity Issues by Type of Hospital, 2005 and 2007

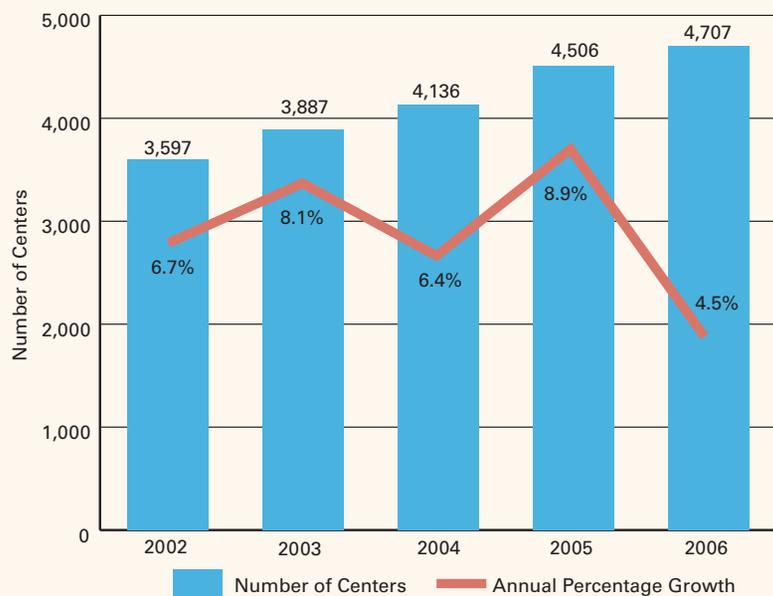
About half of all hospitals report their emergency departments are at or over capacity with no change since 2005.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Medicare-certified Ambulatory Surgical Centers (ASCs), 2002-2006

The number of and Medicare payments to ASCs have grown each year since 2002.

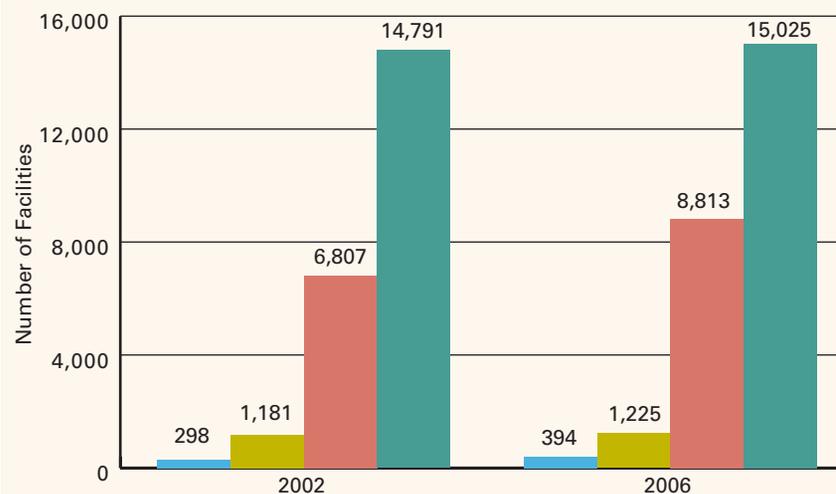


Year	2002	2003	2004	2005	2006
Medicare Payments to ASCs (in Billions)	\$1.9	\$2.2	\$2.5	\$2.7	\$2.9

Note: ASCs are entities that only furnish outpatient surgical services not requiring an overnight stay.
Source: Medicare Payment Advisory Commission (2007) Healthcare Spending and the Medicare Program, June 2007

Post Acute-care Provider Settings, 2002-2006

Since 2002, the number of long-term care hospitals and home health agencies has grown at a CAGR of about seven percent.



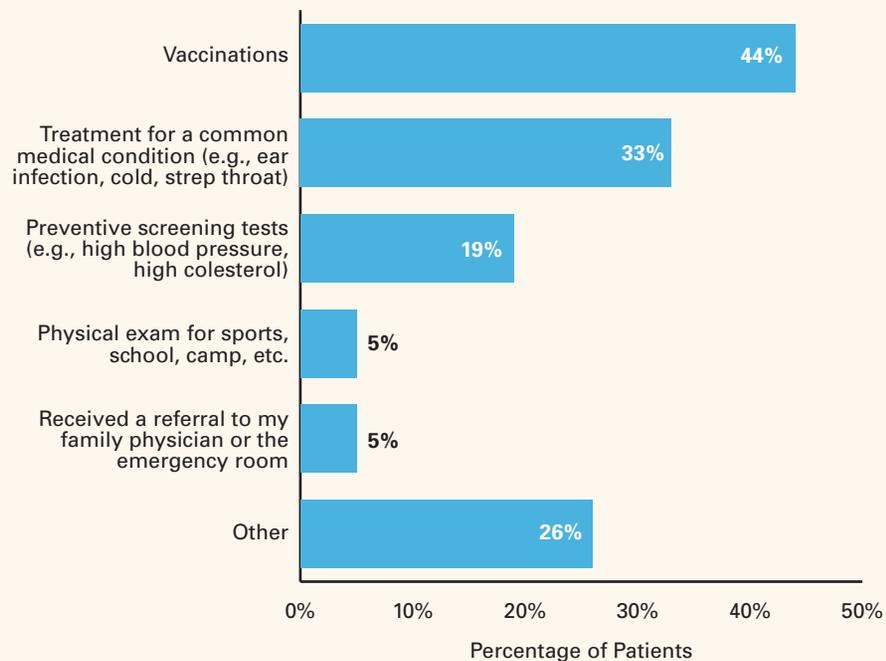
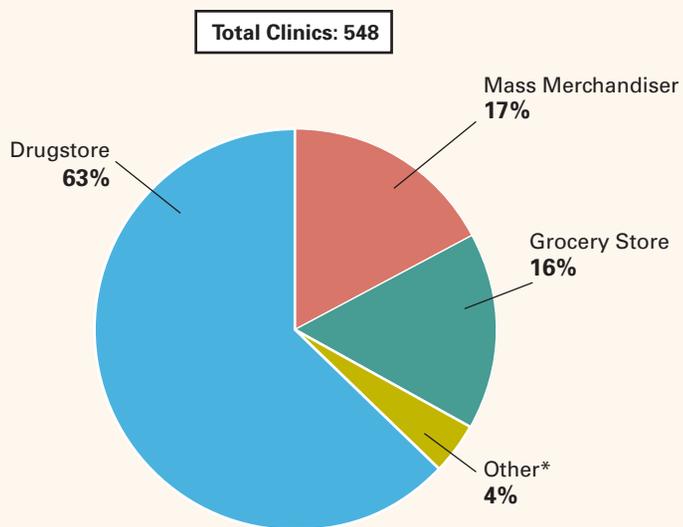
Facility	CAGR 2002-2006
Long-term Care Hospitals	7.2%
Inpatient Rehab Facilities	0.9%
Home Health Agencies	6.7%
Skilled Nursing Facilities	0.4%

Source: Medicare Payment Advisory Commission (2007) Healthcare Spending and the Medicare Program, June 2007

Retail Clinics by Type of Retailer, August 2007

Reasons for Visiting an In-store Clinic, 2007

Retail clinics are emerging alternatives to traditional provider settings. Patients use retail clinics for vaccinations, preventive screening or to obtain treatment for the common cold.

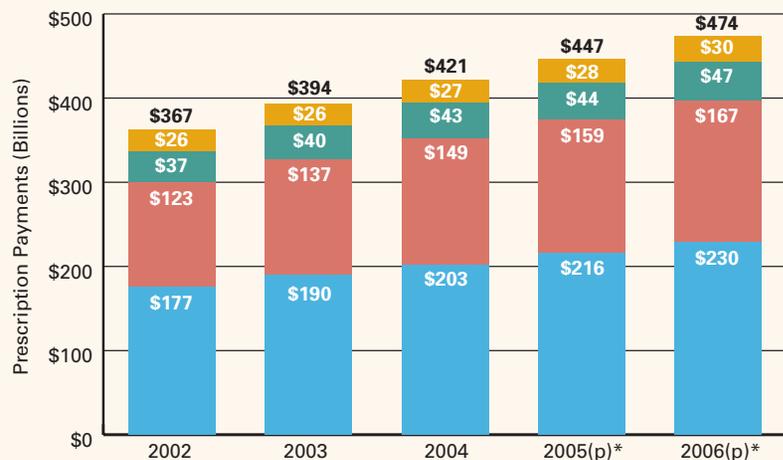


*Standalone retail clinics and retail clinics found in malls, shopping centers and community pharmacies.

Sources: "Retail & On-Site Clinics: Fad or Future," Corporate Research Group, a division of WRG Research Inc. (August 2007); Harris Interactive (2007) Most Adults Satisfied with Care at Retail-Based Health Clinics

Physician Payments by Source of Funds, 2003-2007

Since 2003, about 80 percent of payments for physician services has come from private health insurance and public funds. In the same time frame, nearly half of the payments for physician services came from private health insurance.



- Total Public Payments
- Private Health Insurance
- Out-of-pocket Payments
- Other Private Funds

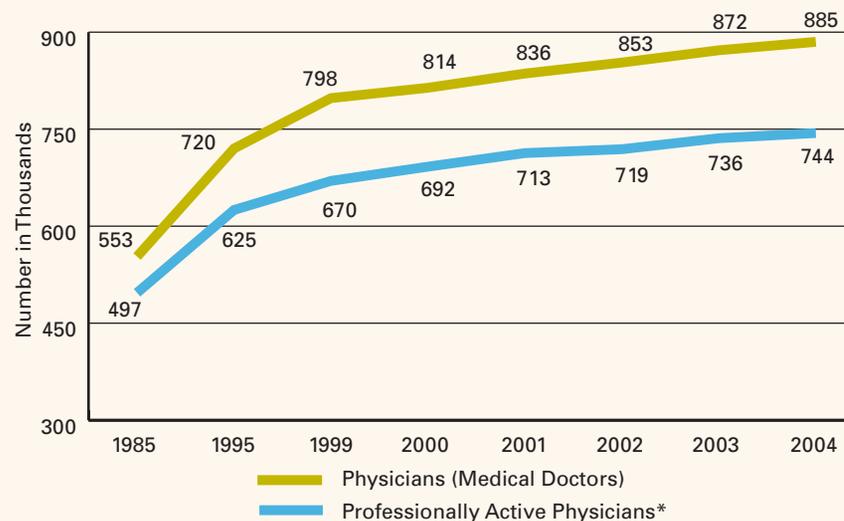
Source of Funds	CAGR 2003-2007
Total Public Payments	8.0%
Private Health Insurance	6.7%
Out-of-pocket Payments	5.8%
Other Private Funds	3.5%
Total Physician Payments	6.9%

*Projected by CMS

Source: Centers for Medicare and Medicaid Services (2007)

Number of Physicians, 1980-2003

The percentage of actively practicing physicians has been constant, averaging 85 percent over the last several years.



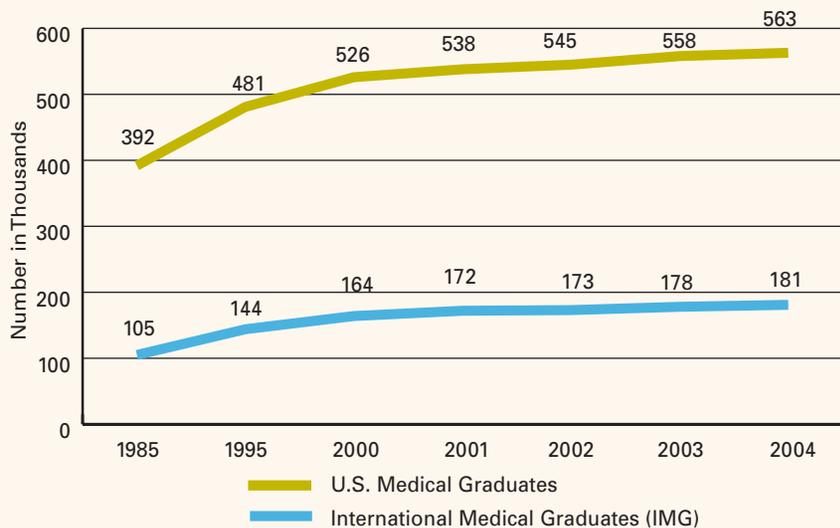
Note: Does not include doctors of osteopathy.

*Excludes medical doctors who are inactive, not classified and whose address is unknown.

Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Active Physicians by Place of Medical Education, 1980-2003

Nearly 25 percent of active physicians graduated outside of the United States.



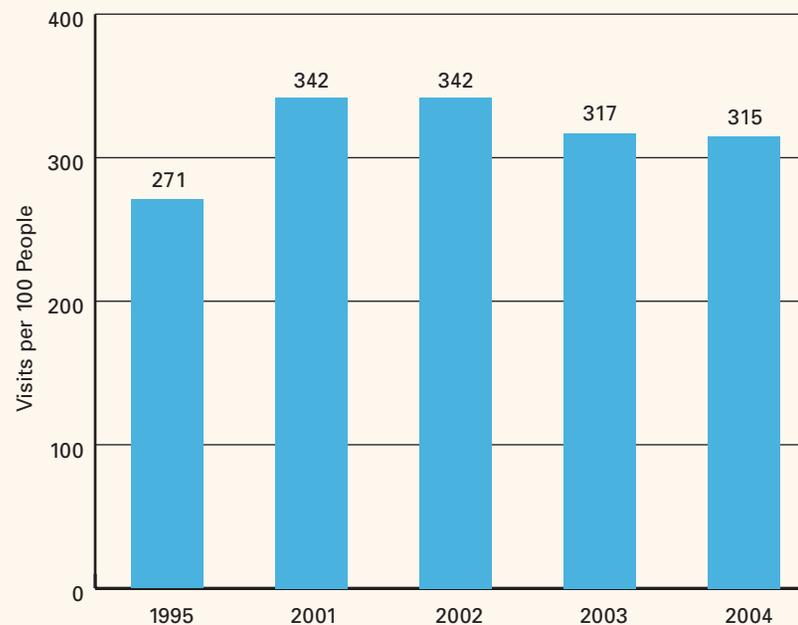
Note: Does not include doctors of osteopathy.

*Excludes medical doctors who are inactive, not classified and whose address is unknown.

Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Physician Office Visits, 1995-2004

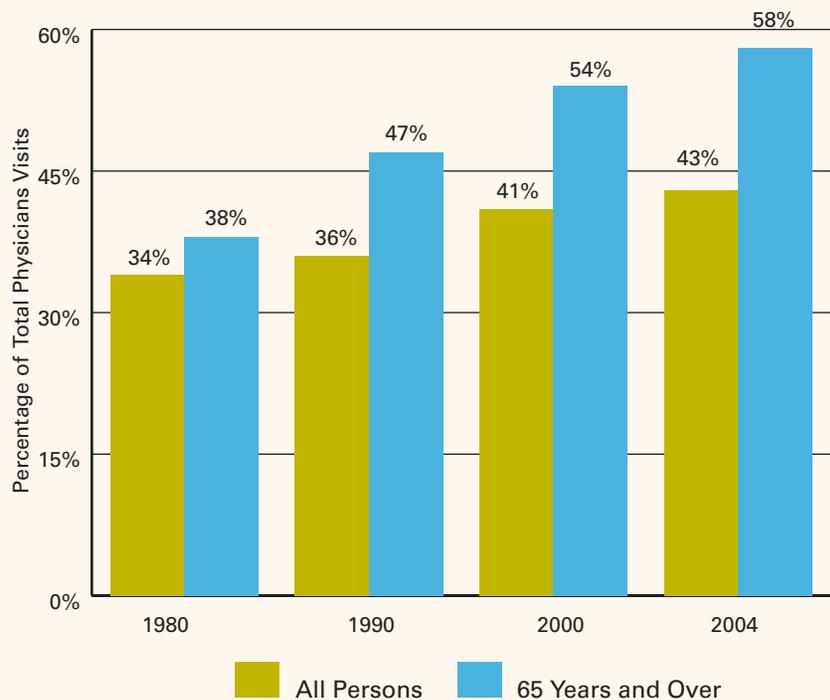
In 2004, the number of physician visits per 100 people was 315, in line with 2003 visits.



Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Visits to Specialty Care Physicians, 1980-2004

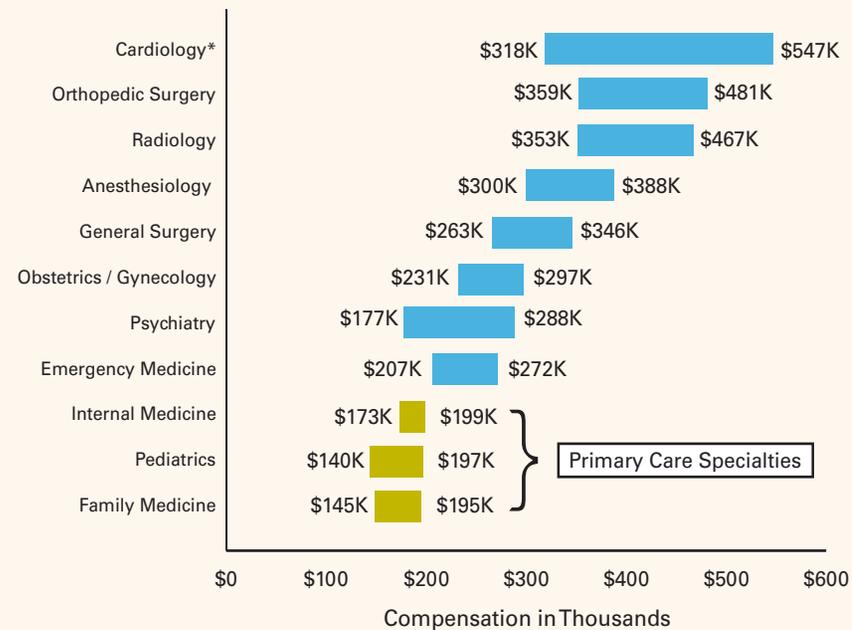
Since 1980, visits to specialists have increased by almost 10 percent. For people age 65 and over, the increase is 20%.



Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Physician Compensation by Selected Specialty, 2007

Specialists are better compensated than primary care physicians.

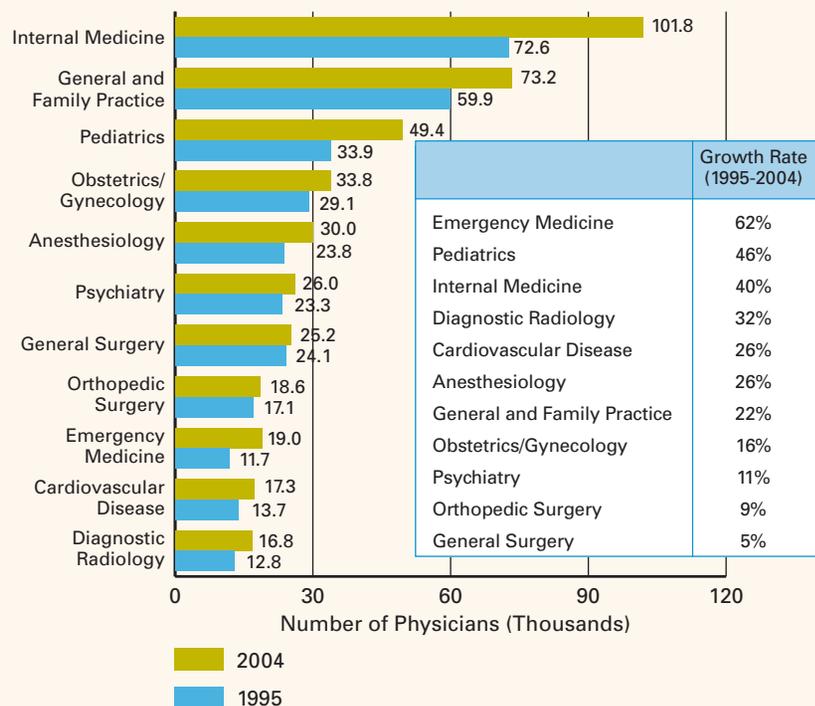


*Includes invasive and noninvasive cardiology

Source: Modern Healthcare (2007) Physician Compensation Survey, July 16, 2007

Active Physicians for Selected Specialties, 1995-2004

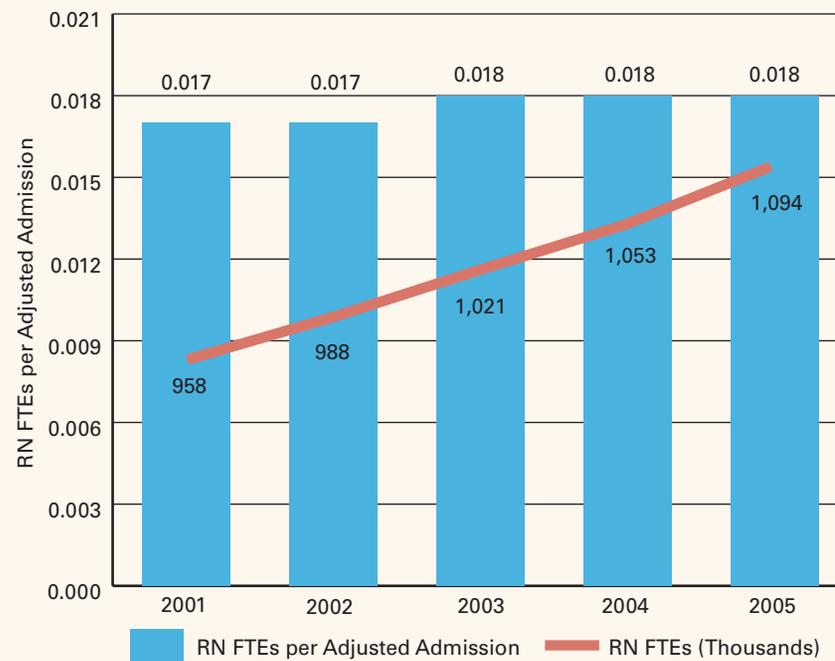
Among physician specialties, internal medicine continues to be the largest. Emergency medicine is the fastest growing specialty, ahead of pediatrics and internal medicine.



Source: Centers for Disease Control and Prevention (2006) Health, United States, 2006

Full-time equivalent registered nurses (RN FTEs) and RN FTEs per Adjusted Admission, 1993-2005

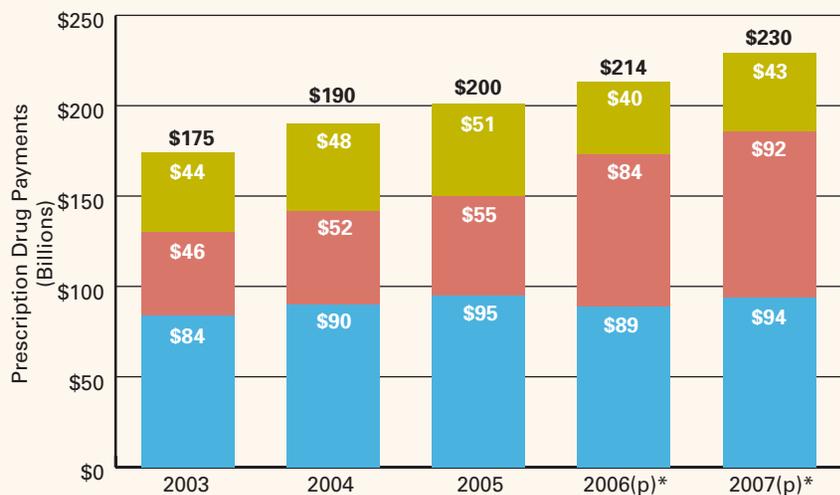
In the last five years, the number of RN FTEs has increased, but the RN FTEs per adjusted patient admission has been stable.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook 2007: Trends Affecting Hospitals and Health Systems

Pharmacy Payments by Source of Funds, 2003-2007

In 2007, private health insurance payments for prescription drugs exceeded public payments.



Source of Funds	CAGR 2003-2007
Total Public Payments	18.9%
Private Health Insurance	2.8%
Out-of-pocket Payments	-0.6%
Total Pharmacy Payments	7.1%

*Projected by CMS

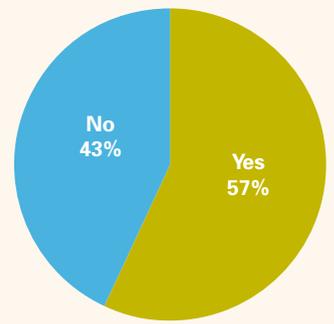
Note: Unlike for hospitals and physicians there is not an "Other Private" payer in pharmacy.

Source: Centers for Medicare and Medicaid Services (2007)

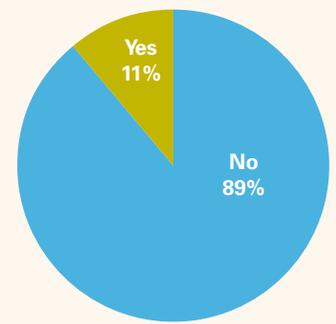
Percentage of Consumers Taking Prescription Medication at Least Weekly, 2006 / Percentage Purchasing Prescriptions Online, 2006

More than half of consumers take a prescription medication weekly. Eleven percent purchase their prescriptions online.

Percentage of Consumers Taking Prescription Medication at Least Weekly, 2006



Percentage Purchasing Prescriptions Online, 2006



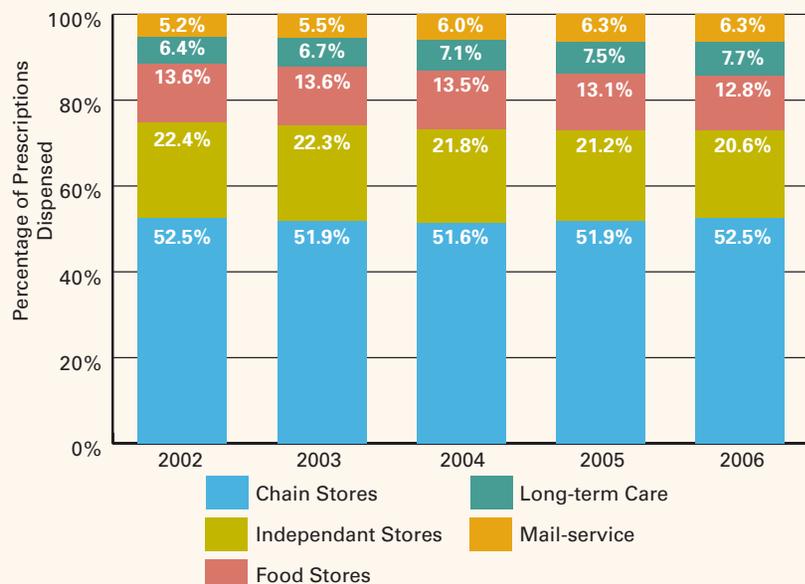
Online Prescription Purchasers	2004	2006
U.S. Average	9%	11%

Base: U.S. respondents who take Rx medication at least weekly

Source: Who Buys Drugs Online?, Forrester Research, Inc., June 2007; Topic Overview: Consumer Marketing in Healthcare, Forrester Research, Inc., June 2006

Prescriptions Dispensed in the U.S. by Channel, 2002-2006

The number of total prescriptions dispensed continues to rise, up more than 12 percent since 2002.



Prescriptions Dispensed in Millions	2002	2003	2004	2005	2006
	3,301	3,361	3,435	3,545	3,707

Source: IMS Health, IMS National Prescription Audit™, May 3/2007

Promotional Spending by Pharmaceutical Companies in the U.S., 2002-2006

Pharmaceutical companies are spending more on direct-to-consumer advertisements.



Professional Spending
Direct-to-consumer Spending

Spending	CAGR 2002-2006
Direct-to-consumer Spending	16.0%
Professional Spending	2.1%
Total	6.6%

Note: Direct-to-consumer spending includes spending on advertising for prescription products for television, magazines, newspapers, radio and outdoor. Professional spending includes costs associated with sales activities of pharmaceutical representatives that are directed to office-based physicians, hospital-based physicians and directors of pharmacies, as well as spending on advertising in medical journals.

Source: IMS Health, IMS Integrated Promotional Services™, 3/2007

Blockbuster Drugs Potentially Going Off-patent

Patents for several blockbuster drugs are set to expire between 2007 and 2009.

Possible Patent Expiration	Drug Brand Name (Manufacturer)	Use/Indication	2006 U.S. Sales (Billions of Dollars)	Rank*
2007	Norvasc (Pfizer)	Hypertension	\$2.2	9
	Ambien (Sanofi-Aventis)	Insomnia	\$1.9	13
2008	Risperdal (Janssen)	Schizophrenia	\$1.7	18
	Fosamax (Merck)	Osteoporosis	\$1.4	23
2009	Prevacid (Novartis)	Ulcers, GERD	\$3.3	3
	Topamax(Ortho-McNeil)	Seizures, Migraine	\$1.5	20
Total			\$12.0	

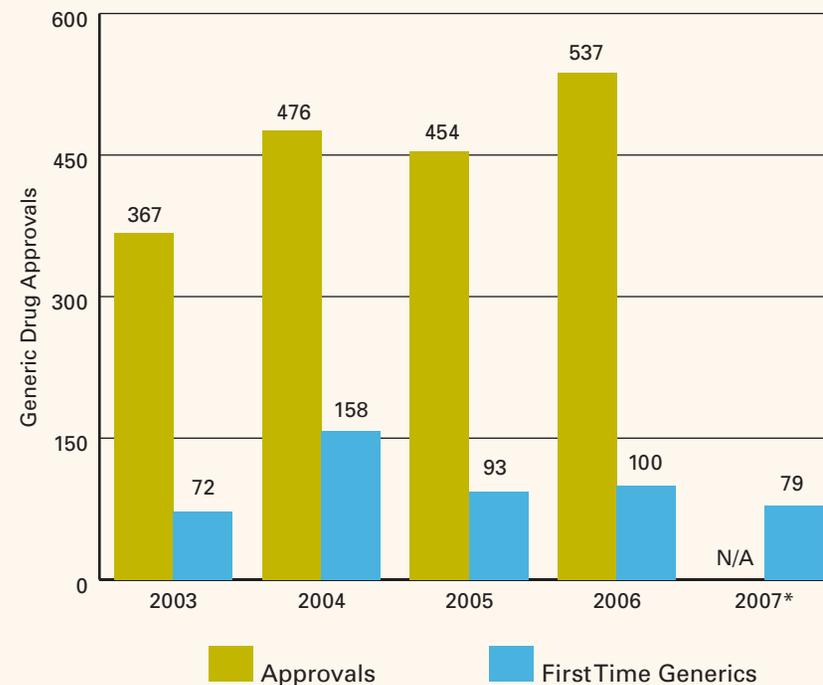
*Rank is based on BRANDED Prescription drugs: 2006 U.S. sales.

Note: GERD is Gastroesophageal Reflux Disease.

Source: Drug Trend Report: Humanomics. © 2007 Medco Health Solutions, Inc., Verispan, VONA

Generic Drug Approvals, 2003-2007

In 2006, generic drug approvals were up 46 percent from 2003.



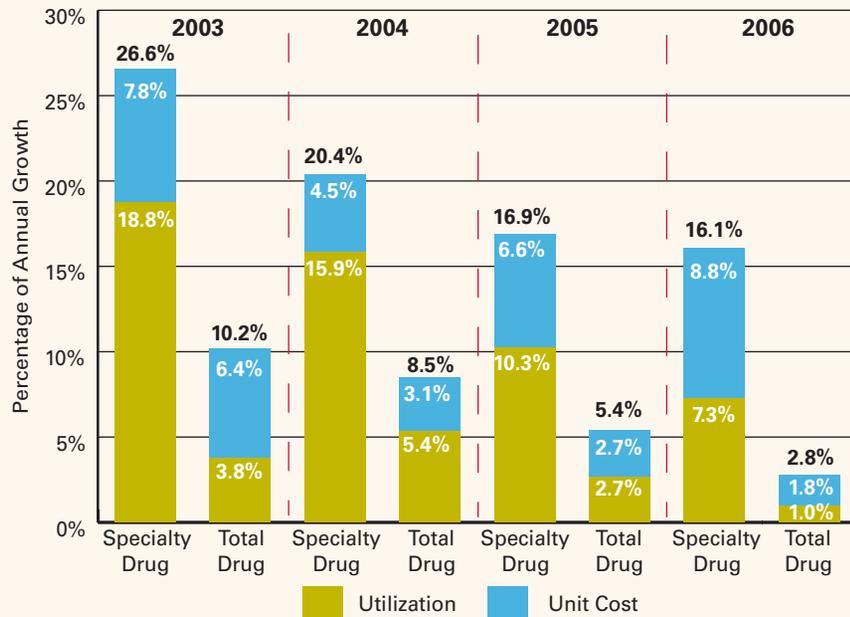
*As of October 2007

Note: First generics are those drug products that have never been approved before as generic drug products and are new generic products to the marketplace.

Source: Center for Drug Evaluation and Research, Food and Drug Administration (2007)

Drug Spending Annual Growth Trends, 2003-2006

Rate of growth for both total drug and specialty drug spending was at its lowest in 2006.



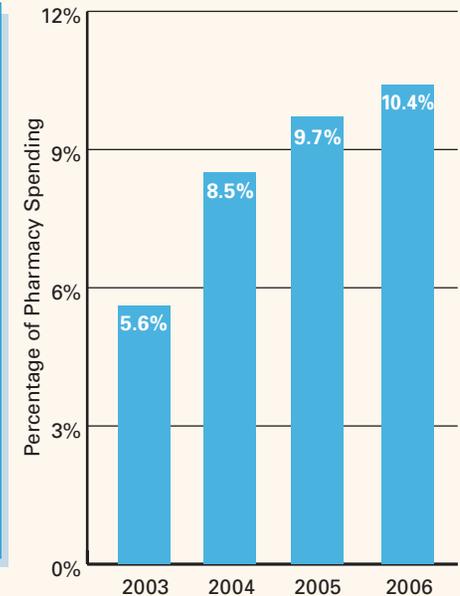
Source: Drug Trend Report: Humanomics. © 2007 Medco Health Solutions, Inc., Drug Trend Report: Personalizing Healthcare. © 2006 Medco Health Solutions, Inc., Drug Trend Report: Managing Generation Rx. © 2005 Medco Health Solutions, Inc.,

Specialty Pharmaceutical Spending as Percentage of Total Pharmacy Spending, 2003-2006

Specialty pharmaceuticals – expensive injectable and infusion therapies used to treat patients with chronic or life-threatening diseases – represent a growing component of pharmacy spending.

2006 Specialty Pharmaceutical Characteristics

- The majority of spending on specialty drugs is for rheumatoid arthritis, multiple sclerosis and cancer, contributing over 70 percent to pharmacy spending for specialty drugs.
- Eight specialty drugs were introduced, up from seven in 2005.
- Eight previously approved specialty drugs were approved for new therapeutic indications.



Source: Drug Trend Report: Humanomics. © 2007 Medco Health Solutions, Inc., Drug Trend Report: Personalizing Healthcare. © 2006 Medco Health Solutions, Inc., Drug Trend Report: Managing Generation Rx. © 2005 Medco Health Solutions, Inc.,

Expanding Access to Quality and Affordable Care

Section 5

Pay-for-performance

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Summary

Some studies have concluded that as much as 30 percent of all medical treatment is unnecessary or duplicative. Several initiatives aimed at increasing quality and making care more affordable have gained traction over the last few years. This section of the 2008 Medical Cost Reference Guide highlights a number of quality incentives, pay-for-performance, electronic medical records and programs aimed at preventing fraud, waste and abuse.

To encourage widespread adoption of evidence-based medicine and improve overall health and healthcare, an increasing number of pay-for-performance initiatives are being implemented. Increasingly in the private and public sectors, physicians are being rewarded for adhering to evidence-based standards of care to increase the quality of care and reduce unnecessary medical treatments. More physicians are also adopting and using electronic medical records.

Initiatives Focused on Promoting Quality Care and Reducing Costs

“The urgency of the situation demands that steps be taken now to encourage health care institutions and clinicians to improve their quality. Pay for performance has demonstrated sufficient promise based on early experience that it should be pursued, albeit cautiously and in a manner that allows for learning and adjustment as needed. And we should remember that pay for performance is just one part of the solution; other interventions will be needed to achieve the level of quality that Medicare patients deserve.”

– *Steven A. Schroeder, MD*
Distinguished Professor of Health and Health Care,
University of California, San Francisco

“Personal Electronic Health records could allow beneficiaries to identify aberrant billing practices more easily, thus, opening new doors for law enforcers and anti-fraud agents at private insurers to collaborate with consumers.”

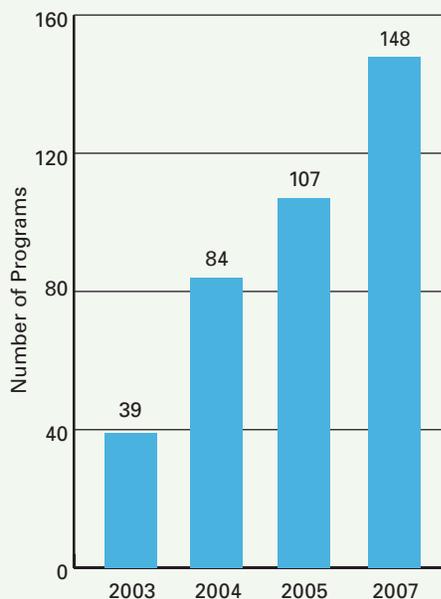
– *Daniel R. Levinson*
Inspector General for the Department of Health
and Human Services

“Efforts such as those by health insurance plans to provide consumers with portable PHRs are a step forward in the national health IT agenda. We welcome your continued work to achieve interoperable, consumer-centric health information.”

– *Robert M. Kolodner, MD,*
Interim National Coordinator for Health Information
Technology at HHS

Pay-for-performance Programs, 2003-2006

Since 2003, the number of provider pay-for-performance programs has more than tripled.

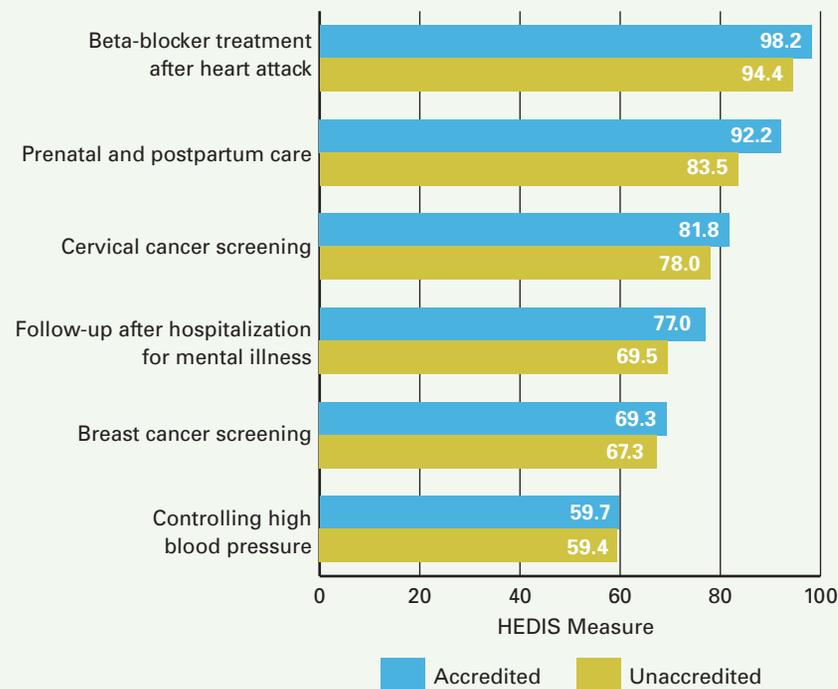


“An effective Pay for Performance program differentiates payment among providers based upon their performance on quality, efficiency, and other measured of improvement so that desired outcomes occur through changed behavior.”

Source: 2007 Med-Vantage, Inc. National P4P Study. All rights reserved.

Healthcare Effectiveness Data and Information Set (HEDIS) Effectiveness of Care Measure for Selected Care/Treatments, 2006

Accredited health plans perform better than unaccredited health plans on various health measures.

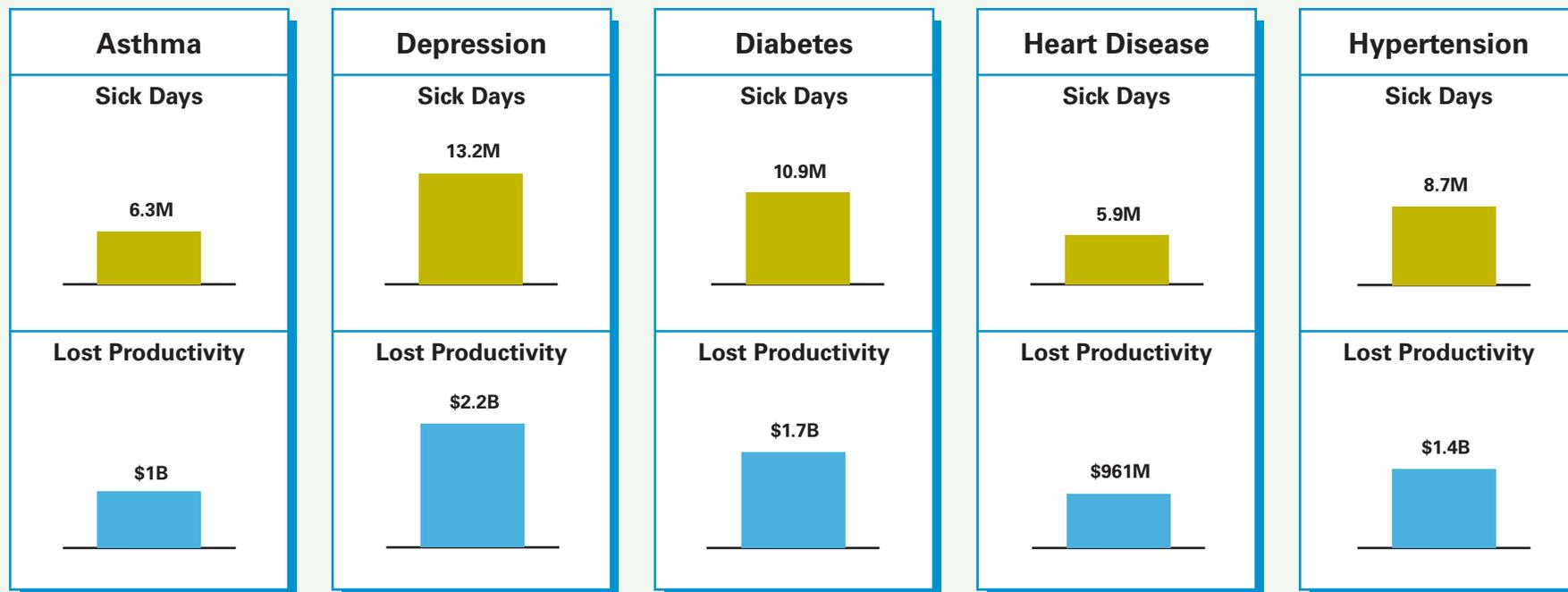


Note: HEDIS is a tool used by more than 90 percent of America’s health plans to measure performance on important dimensions of care and service.

Source: National Committee for Quality Assurance. The State of Health Care Quality 2007

Sick Days and Lost Productivity Due to Unexplained Variations in Care, 2006

Chronic diseases lead to an estimated 45 million sick days and \$7.4 billion in lost productivity each year.

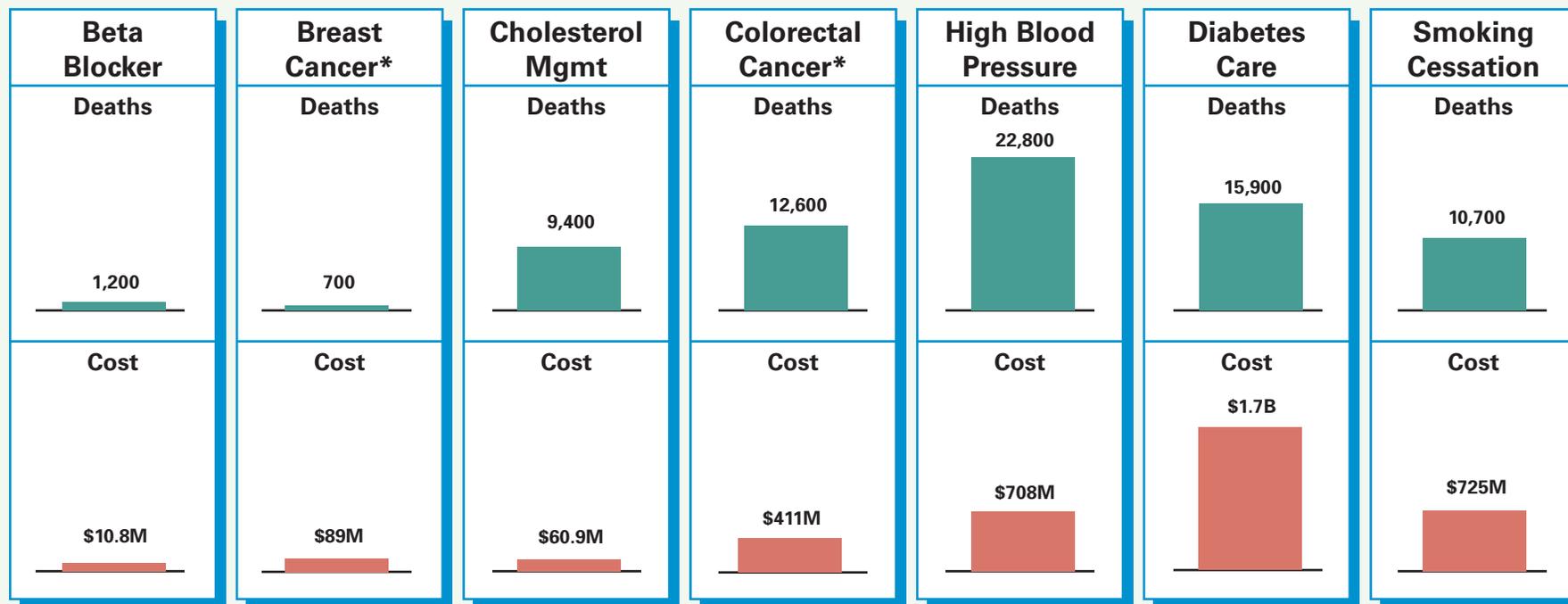


Note: Sick days include days attributable to presenteeism, when sick employees report to work but illness compromises their productivity.

Source: National Committee for Quality Assurance. The State of Health Care Quality 2007

Avoidable Deaths and Medical Costs Due to Variations in Care, 2006

There are up to 75,000 avoidable deaths each year, totaling up to \$3.7 billion in avoidable hospital costs.

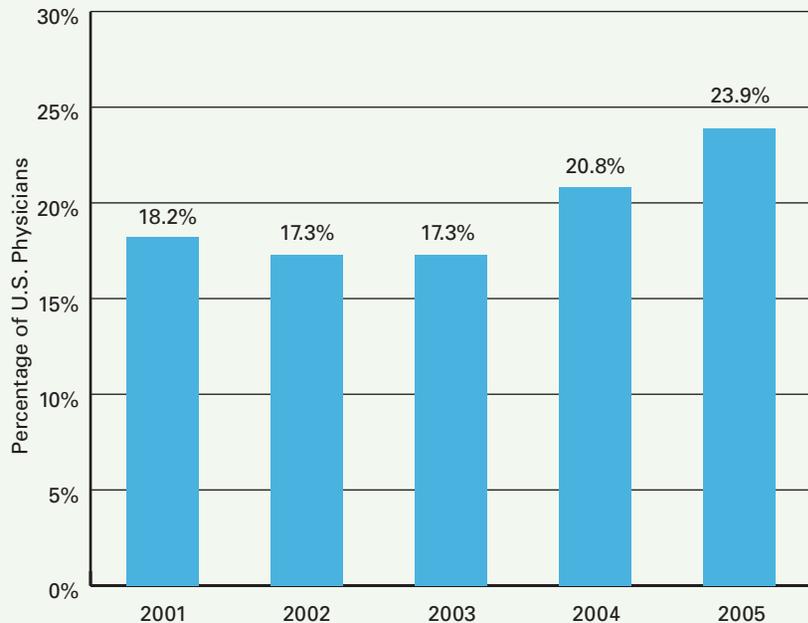


*Screening

Source: National Committee for Quality Assurance. The State of Health Care Quality 2007

Percentage of Office-based Physicians Who Report Using Electronic Medical Records (EMR), 2001-2005

About one in four physicians use EMR, up more than 5 percent from 2001.

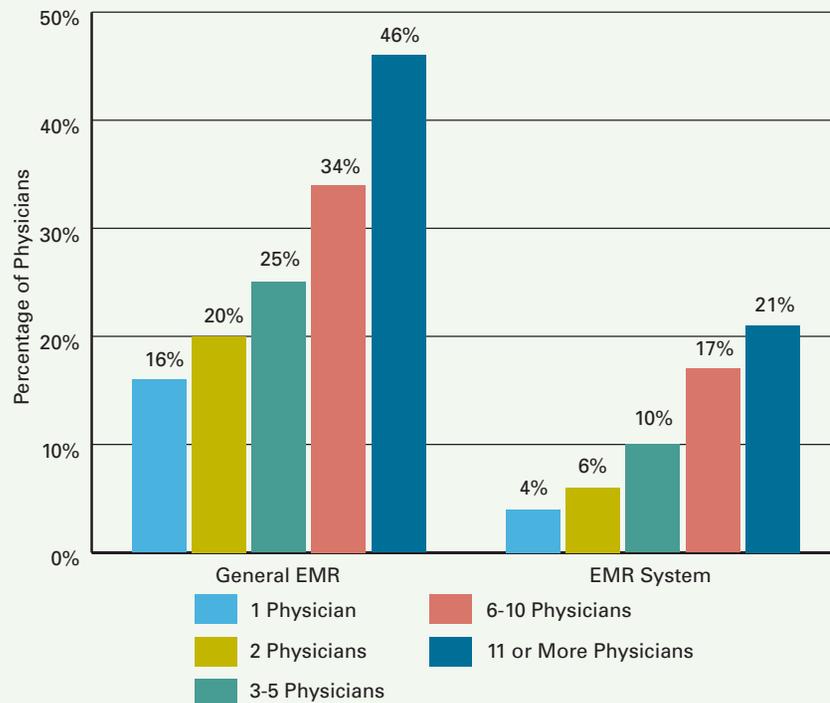


Note: Includes nonfederal office-based physicians who see patients in an office setting. Excludes radiologists, anesthesiologists and pathologists.

Source: Center for Disease Control and Prevention (2007) Electronic Medical Use by Office-based Physicians: United States, 2005

Percentage of Physicians Using EMRs and Using EMR Systems by Practice Size, 2005

Larger physician groups are more likely to utilize EMR and EMR technology.



Note: General EMR is positive response to single question on full or partial EMR use. EMR system is a positive response to four minimal features: computerized orders for prescriptions, computerized orders for tests, test results and physician notes. Includes nonfederal office-based physicians who see patients in an office setting. Excludes radiologists, anesthesiologists and pathologists.

Source: Center for Disease Control and Prevention (2007) Electronic Medical Use by Office-based Physicians: United States, 2005

Cost of Healthcare Fraud

Healthcare fraud costs the nation about \$60 billion annually.

- The National Health Care Anti-fraud Association estimates that \$60 billion of healthcare payments are lost to outright fraud.
- Blue Cross and Blue Shield System anti-fraud efforts in 2006 resulted in overall savings and recoveries of more than \$187 million. Of that, \$128 million was recovered from payments based on fraudulent claims. More than \$58 million was saved by identifying and denying fraudulent claims prior to payment.

Source: Blue Cross and Blue Shield Association (2006) Blue Cross and Blue Shield Plans' Anti-fraud Savings and Recoveries Increased 11 Percent in 2005

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