

Medical Cost Trends

Below is a compilation of facts and information on national and California health insurance cost trends

Overview

The high and growing cost of health care is a significant issue for businesses, their employees and health insurers. National spending on health care in 2007 reached \$2.2 trillion. Many factors contribute to this growth. This flyer is designed to offer some insight into those factors.

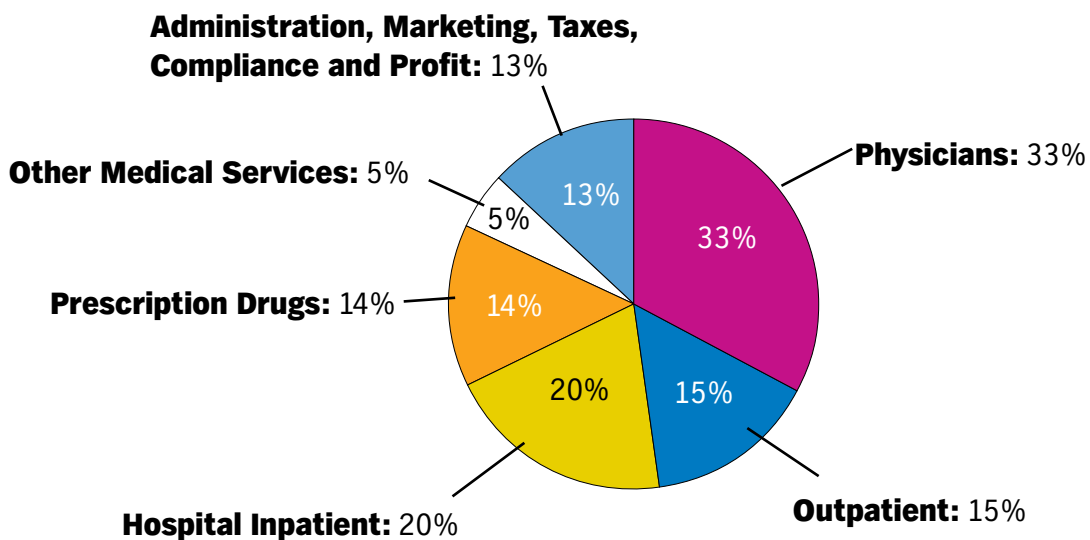
What do things really cost?

Attached is a brief listing of the average billed costs for a variety of health care services (costs reflect billed charges for hospital services; does not include professional services):

- An average day in the hospital: **over \$9,000**
- Care and surgery for a burst appendix: **over \$45,000**
- Knee ligament surgery and care: **over \$45,000**
- Annual supply of Lipitor (retail): **over \$1,400**
- Average emergency room visit: **over \$2,000**

Where does the money go?

In 2007, PricewaterhouseCoopers completed a national report to determine factors driving health care costs. Their report indicated that on average \$0.87 of every premium dollar is spent on medical services and products, with hospitals and physicians receiving more than two-thirds of the premium.



Main Drivers of Medical Cost Trends

- General inflation – **average of 2.6 percent annual increase from 1997 to 2007**
- Rising unit, labor, technology costs for hospital and physician services – **1 percent increase annually**
- Improved technologies and new drugs – **1 percent increase annually**
- Defensive medicine impact on utilization of services – **1 percent increase annually**
- State and federal mandates and expanded cost shifting to private health care – **varies annually**
- Direct-to-consumer marketing of drugs, technology and procedures – **1 percent increase annually**

Examples of Trends Impacting Costs

Prescription Drugs

- In 2009, fewer brand drugs are scheduled to move to generic or over the counter (OTC), resulting in higher overall Rx costs.
- Specialty drugs (e.g., anti-coagulants, MS drugs, cancer drugs) are expected to see a 20.8 percent rise in costs in 2009.
- Between 1997 and 2007, prices for prescription drugs grew at an average rate of two-and-a-half times inflation.
- Over 59 percent of US population under 65 has a prescription drug expense each year.

Preventable Care:

- Currently over 31 percent of US adults are categorized as obese and over 64 percent are considered overweight. Prevalence of obesity and diabetes has doubled during the past 25 years.
- More than a quarter of the spending growth on health care in recent years is attributable to the rise in obesity and related a growth of diabetes, high cholesterol and heart disease

Socio-demographic Factors:

- **Aging population** – procedures to enhance active lifestyles (e.g., hip and knee replacement) continue to climb as the baby boom “bubble” pushes through middle age.
- **Older parents** – the likelihood of preterm delivery is two times greater for mothers age 35 or older. The average cost for a preterm baby is \$42,000.
- **Economy** – the impact of California’s 20.5 percent uninsured combined with lower government reimbursement schedules will result in further cost shifting to private insurance.
- **Regulations/mandates** – California requires insurers to cover 24 benefits and 14 provider types, which in total make premiums 22 to 53 percent higher than products without such mandates.

Technology Expansion:

- Between 1997 and 2006, utilization of CT scans has doubled and MRI scans have tripled, causing per-enrollee diagnostic imaging costs to more than double.
- Expansion to digital testing systems requires more expensive (3 to 4 times) equipment and more sophisticated database systems.

Some “Anthem Answers” to These Trends

- **Generic Rx Utilization Initiatives** – including outreach to current members on brand name maintenance prescriptions who may benefit from lower cost generic Rx substitution
- **360° Health** – a comprehensive program that surrounds Anthem members with resources and tools to manage their own health and health care decisions. Includes web tools, 24/7 NurseLine, health guidance programs (Future Moms, Childhood Obesity) and ConditionCare
- **Anthem Care Comparison** – online cost and quality comparison tool that allows members to preview average costs and outcomes for common services at their local hospitals
- **Utilization Management Initiatives** – including efforts at early identification and treatment for at-risk populations

Sources: Anthem Internal Analytics; AMA eVoice, “Addressing the Rising Cost of Healthcare” (Feb 2008); Blue Cross Blue Shield Association, “2008 Medical Cost Reference Guide”; California HealthCare Foundation, “Health Care Costs 101 (2008)”; Council for Affordable Health Insurance, “Health Insurance Mandates in States 2007”; Express Scripts, “2007 Drug Trend Report”; The Henry J. Kaiser Family Foundation, “Prescription Drug Trends Report” (2008); The Henry J. Kaiser Family Foundation, “Trends in Health Care Cost and Spending” (2007); The Henry J. Kaiser Family Foundation HealthAffairs, “Medical Imaging Tests are Overused...” (2008); Millman, “2008 Millman Medical Index”; The Obesity Society, “Fact Sheet”; PricewaterhouseCoopers, “Behind the Numbers - Medical Cost Trends for 2009”; PriceWaterhouseCoopers, “Cost of Care Study” (2007); TechnoClin Consulting, Inc., “Trends in Diagnostic Imaging” (2007); WebMD HealthNews, “Medical Bills Soar with Premature Babies” (2005);