



**BlueCross BlueShield of Oklahoma**

*Experience. Wellness. Everywhere.®*

# Economics of Health Care

## **A three part series**

Don't miss the next two messages in our *Economics of Health Care* series!

## **Part 1 of 3: Identifying health care costs**

The rising costs of health care create an unsustainable burden on consumers, employers and government. It's important that Blue Cross and Blue Shield of Oklahoma (BCBSOK) members, as well as the general public, know how premium health insurance dollars are being spent. More importantly, there is a need for education and awareness about what truly drives costs and how to help keep down these expenses. While most Americans use health care, few really know where their money goes and what medical care and services actually cost.

Federal government data confirms that rising health care costs are driven by increased spending on hospital care, physician services, prescription drugs and other medical services. As the dollar image on the next page illustrates, 87 percent of every health insurance premium dollar is used to pay for such direct medical care. These medical treatment costs are rising at two to three times faster than the rate of inflation. But with the greatest challenge, comes the greatest opportunity. **Health care affordability and sustainability depends on creating efficiencies within the 87 percent of health care dollars directed toward actual health care providers.**



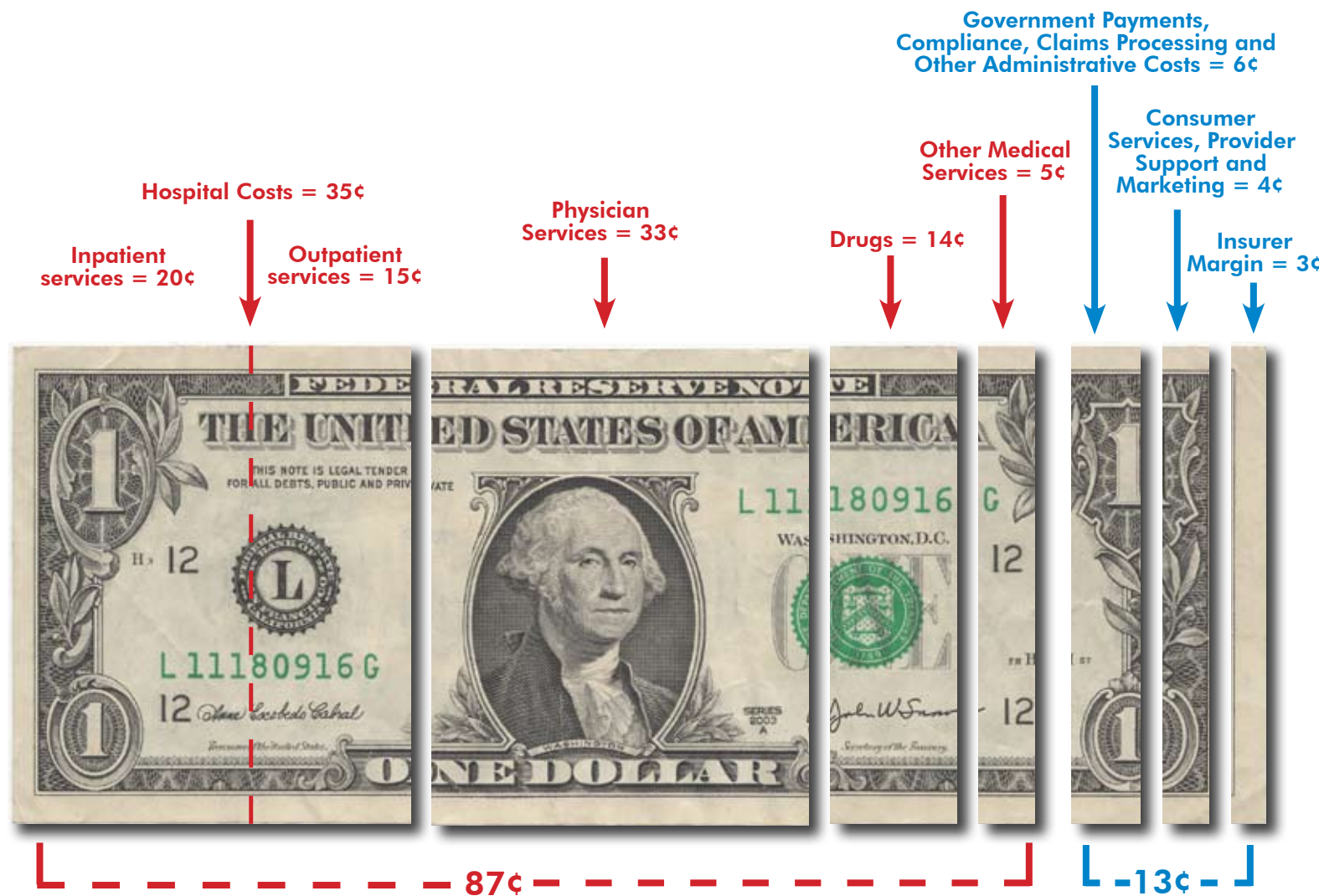
# Where does your health insurance dollar go?



- Hospital costs (35%)** – According to a study by Thomson Reuters, the average profit margin of America’s hospitals reached more than 8 percent in the second quarter of 2009. Hospitals, especially those with strong market power, have reaped higher revenues from private payers. This has led to weaker cost controls and higher costs per unit of service. Data gathered by the American Hospital Association revealed that, from 1999 to 2007, private insurers’ payment-to-cost ratio increased **17 percent**, while Medicare’s same payment-to-cost ratio decreased **9 percent**. This process is shifting the costs from Medicare to private insurers, requiring them to pay increasingly more.
  - Inpatient services** – Inpatient services include items and services ordinarily furnished by the hospital for the care and treatment of patients staying overnight. Patients may be admitted to the hospital for various reasons – giving birth, undergoing surgery, etc. The average expenses for childbirth are up to \$8,800 and well over \$10,000 for a c-section delivery. The total charges of a hip replacement can cost up to **\$32,000**.
  - Outpatient services** – Outpatient hospital services include less complicated procedures that do not require an overnight stay in the hospital. These generally occur when an individual visits the hospital to prevent sickness, get diagnosed, alleviate pain or to rehabilitate. Emergency room visits also can be an outpatient service. The average cost of a trip to the emergency room for an adult is about \$700, not including any tests or hospitalization, which may increase the bill to well over **\$1,000**.

- Physician services (33%)** – Physician services include the cost of patient care including salaries, facilities, technology and medical malpractice lawsuits.
- Prescription drug costs (14%)** – In February, *Forbes* magazine released its list of the most expensive drugs, including one drug that cost **\$409,500** for a year’s supply – meaning it costs more than \$1,000 per day, every day, all year. Some people argue that such prices are necessary due to drug research, development, manufacturing and marketing. However, the pharmaceutical industry benefits from a **19 percent** profit margin and is currently ranked the third most profitable industry in America.
- Other medical services (5%)** – These costs include durable medical equipment, orthotics, therapy, hospice, skilled nursing services and other ancillary provider services.
- Government payments, compliance, claims processing and other administrative costs (6%)** – Payments to the government include taxes, mandates and compliance. These costs also include claims processing and other administrative costs.
- Consumer services (4%)** – These costs include prevention services that help members stay healthy, as well as medical management programs, provider support and health information technology investments – all of which avert millions of dollars a year in unneeded medical costs.

Rather than returning earnings to shareholders, we retain earnings as capital reserve. This secures our ability to meet financial obligations, including claims payments – much like a health care “rainy day fund.”



Health care affordability and sustainability depends on creating efficiencies within the **87 percent** of health care dollars directed toward actual health care providers.

- Insurer margin (3%)** – BCBSOK, as a division of Health Care Service Corporation, operated with a surplus of less than 1.25 percent in 2009, with less than 1 percent projected in 2010. This is well below the national average of other insurers. As a non-investor owned company, we do not trade stock publicly or insure others for profit. Rather than returning earnings to shareholders, we retain earnings as capital reserve. This secures our ability to meet financial obligations, including claims payments – much like a health care “rainy day fund.” This non-investor owned model assures that the monthly rates members pay are put to good use. Now, more than ever, health care customers need this structure and certainty.

Based on a PricewaterhouseCoopers’ analysis. Factors Fueling Rising Healthcare Costs 2008.



**BlueCross BlueShield of Oklahoma**

*Experience. Wellness. Everywhere.®*

## No simple task

Controlling health care costs is no simple task and will require the combined effort of the government, insurers, providers and the general public. As economic difficulties press healthy individuals to go without insurance, the market becomes saturated with unhealthy people who incur higher health costs. In addition, unemployment drives up the number of uninsured and increases the use of expensive visits to the emergency room.

As Oklahoma's only private insurer to offer provider network coverage in all 77 counties, BCBSOK makes every effort to keep its coverage affordable and accessible to all Oklahomans. We're committed to working with hospitals, physicians, producers and employers to provide quality medical care at competitive rates. Most other insurance carriers in Oklahoma are for-profit, and therefore focus their attention on the locations with the most reliable profitability.

### **BCBSOK is committed**

to working with hospitals, physicians, producers and employers to provide quality medical care at competitive rates.

As a non-investor owned company, our members are our shareholders, and we operate business to their benefit. While investor owned or publicly traded companies are forced to maximize shareholder value, we are without this burden. This freedom allows us to better align our incentives with and concentrate all resources on our customers. The non-investor owned model also enables us to focus on the long-term needs of policyholders instead of the short-term gains of shareholders.

Watch for the next two messages in our *Economics of Health Care* series, as we analyze why these costs continue to rise and discuss the roles we each play in holding down health care costs.