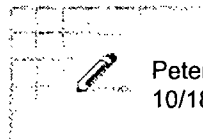


David B



Peter P. Swire  
10/18/99 05:06:24 PM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP@EOP, Sally Katzen/OMB/EOP@EOP, David W. Beier/OVP@OVP

cc:

Subject: fin/medical -- reactions ASAP

Gary Gensler just called. He will call back shortly for EOP reactions. Here is the current proposed language to go in the package. Andrea Levario of HHS has agreed to language (fifteen minutes ago) that is almost identical to this.

When making an extension of credit, an insured depository institution may not use nonpublic personal information from an affiliated insurance company except with the consent of the customer. The insured depository institution may not deny any customer a financial product involving an extension of credit for the consumer's failure to give consent for the transfer from an affiliate.

This would all go in a Democratic package for later this p.m.

When making an extension of credit, an insured depository institution may not use nonpublic personal information from an affiliated insurance company except with the consent of the customer. The insured depository institution may not deny any customer a financial product involving an extension of credit for the consumer's failure to give such consent, unless equivalent insurance records are generally also required for consumers who have no business relationship with an affiliate.

When making an extension of credit, an insured depository institution may not use individually identifiable health information, as defined under Section 1171 of the Health Insurance Portability and Accountability Act of 1996, from an affiliated insurance company except with the consent of the customer. The insured depository institution may not deny any customer a financial product involving an extension of credit for the consumer's failure to give such consent, unless equivalent individually identifiable health information is generally also required for consumers who have no business relationship with an affiliate.



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An Association of Independent  
Blue Cross and Blue Shield Plans

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# News Release

FOR IMMEDIATE RELEASE  
October 19, 1999

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## **CONFIDENTIALITY COSTS DWARF COSTS OF MAJOR HEALTH PROGRAMS, REPORT SAYS**

*BCBSA Study Finds 5-Year Price Tag Is At Least \$43 Billion*

(WASHINGTON) — Blue Cross and Blue Shield Plans “believe in privacy, not paperwork.” Requirements in confidentiality proposals will harmfully interfere with communications critical to the doctor-patient relationship, costing doctors, hospitals, insurers, and ultimately consumers billions of dollars per year, according to a new study funded by the Blue Cross and Blue Shield Association (BCBSA). The study estimates the cost of implementing the current confidentiality proposals at \$43 billion over five years.

This \$43 billion cost is higher than the cost of major health care programs and proposals, including the Children’s Health Insurance Program (\$24 billion), a Medicare prescription drug benefit (\$37 billion), a small business tax credit for low-wage workers (\$4.4 billion), and an acceleration of 100 percent tax deductibility for the self-employed (\$3 billion).

(more)

## Cost of Confidentiality Dwarfs Other Health Costs/Add One

"Confidentiality proposals currently being developed in Washington would threaten the quality of patient care; create a bureaucratic nightmare for patients, doctors and hospitals; and increase the cost of insurance coverage — thus increasing the number of uninsured," said Mary Nell Lehnhard, senior vice president in BCBSA's Office of Policy and Representation.

"Think about it: The same government that brought us the tax code is now developing the privacy code," Lehnhard warned.

The study, conducted by the management consulting firm Robert E. Nolan Company Inc., analyzed the impact of common confidentiality provisions on key sectors of the health care industry, including doctors, hospitals and health plans. The major provisions examined in the study include new mandates for authorizations to use patient information; the right to inspect, copy and amend all information; and rules for tracking disclosures of information within and among providers of health care. The final cost of the proposals likely would be even higher than the study estimates because the study authors did not estimate the cost of all provisions and the cost impact on all those affected.

"We believe all subscribers and patients should have the peace of mind that comes with knowing your personal records are secure," Lehnhard said. "We are outraged when breeches of this trust occur. Therefore, this debate is not about *if* privacy should be assured, but *how* it is assured."

(more)

## Cost of Confidentiality Dwarfs Other Health Costs/Add Two

“While we believe that privacy protection is important, we do not believe it must be *unduly complicated as to put quality at risk*,” added Allan Korn, MD, BCBSA senior vice president for clinical affairs and chief medical officer. “New so-called ‘privacy rules’ would cause physicians to err on the side of providing too little information as they discuss patient needs. This interference would result in less timely, less accurate and less complete information for doctors to use in patient assessment, and would compromise patient health.”

The paperwork would be paralyzing. A new document would have to be created every time an independent physician discussed a patient; every time a physician with hospital privileges obtained EKG or lab data; or every time a physician filed a document. Each of these routine transactions would be included in a tracking report according to Washington's specifications.

“The cost of just some of these rules would result in an additional \$43 billion in spending on health care — *more* than we spent on the Children's Health Insurance Program, *more* than the cost of providing prescription drugs for the elderly Medicare population,” Lehnhard continued. “But the \$43 billion we'll spend implementing overly complex privacy rules will not buy a single new benefit or any additional health care services — instead, it will be spent simply on paperwork and administrative computer changes.”

(more)

## Cost of Confidentiality Dwarfs Other Health Costs/Add Three

The specific costs associated with the major categories are:

- \$1.9 billion for authorizations;
- \$4.0 billion for inspection, copy and amendment;
- \$9.1 billion for tracking and disclosure;
- \$23.4 billion for infrastructure changes;
- \$4.4 billion in added medical cost from reduced medical management.

Lehnhard concluded, "We are calling on Washington today to work with the health care community to develop real protections that do not threaten the timeliness and quality of patient care, and increase the cost of insurance coverage at a time when the number of uninsured continue to rise. Practical, common sense privacy protections — that's what our customers want, and that's what we want to provide."

BCBSA is a federation of independent, locally based Blue Cross and Blue Shield companies collectively serving more than 73 million — one in four — Americans. For more information about BCBSA, visit [www.bluecares.com](http://www.bluecares.com).

# # #

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## **STATEMENT FOR BLUE CROSS/BLUE SHIELD PRESS CONFERENCE ON THE COST OF COMPLIANCE WITH CONFIDENTIALITY LEGISLATION**

**Rick Pollack, Executive Vice President  
American Hospital Association**

October 19, 1999

The American Hospital Association (AHA) for many years has been a strong supporter of, and an active participant in, the development of patient confidentiality legislation. Hospitals have traditionally been the guardians of patients' confidential medical information, and any legislation or regulation in this area must balance the need for protecting patient confidentiality with the equally important need to effectively coordinate each patient's care.

AHA recognizes that implementation of confidentiality measures will have a significant cost impact. The Blue Cross and Blue Shield Association study raises important questions about the magnitude of these costs. AHA is especially concerned about the ability of the already financially strapped health care system to absorb them.

Perhaps an even greater cost is the potential for serious disruption to patient care. One example is a requirement included in several confidentiality proposals that providers must limit the scope of medical information disclosures to no more than what is necessary for the specific purpose of the disclosure. Penalties would be levied, presumably, if too much information were provided.

But, because many different caregivers are involved in each individual patient's care on any given day, timely communication is essential. Caregivers who deal with a mountain of information every day simply cannot be expected to determine the exact need for every piece of information and the exact measurement of information that may be required to meet that need.

Modification of a few key proposals, such as this one, would make it possible to protect patient confidentiality without interfering with the efficient delivery of patient care.

AHA commends Congress and the administration for tackling this difficult and complex issue, and we believe significant progress has been made toward finding the right balance. Blue Cross/Blue Shield highlights an important and under-appreciated issue—the significant cost of compliance. It is important that, before we move toward passage of confidentiality legislation, we examine the costs of implementation and ensure that the system is capable of assuming the increased obligations.

AHA remains committed to working with Congress and the Administration to ensure that whatever proposal is adopted recognizes these critical concerns.

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FOR IMMEDIATE RELEASE  
October 19, 1999

## **AMGA Joins BlueCross BlueShield in Voicing Concern About Costs of Privacy Mandates**

ALEXANDRIA, VA— As part of its ongoing efforts as the national voice for medical groups, the American Medical Group Association joins BCBS in cautioning policy makers about the costs of prescriptive approaches to dealing with the confidentiality of patients' medical records.

AMGA believes that the confidentiality of patients' medical records is of the utmost importance and we believe all patients should have the peace of mind that comes with knowing their records are secure. But new privacy policies must not impose unrealistic costs, create bureaucratic nightmares for providers, or limit the appropriate exchange of patient information to achieve this goal.

Millions of Americans benefit from health services that are provided in some form of organized or coordinated system of delivery. These systems are distinguished by a commitment to enhancing quality of care through innovative health care delivery arrangements in which health care providers, hospitals, researchers, and others share information to ensure patients receive safe and appropriate high quality care. Such systems, combined with advances in technology, have resulted in better coordination of patient care, expedited claims processing, and deterred and/or lessened fraudulent billing practices. It is important to recognize that appropriate information sharing and use must occur within these integrated systems to ensure that patients receive high quality care.

AMGA supports meaningful and balanced federal confidentiality legislation and/or regulations. We believe that the security of each individual's patient health information should be protected by prohibiting unauthorized disclosure and/or use of protected health information. At the same time, it is important that federal policy should not undermine the ability of medical groups and organized systems of care to provide consumers with high quality, affordable health care. Because confidentiality proposals might change the way health care records and information are collected, used, transferred and stored, they will affect every aspect of the delivery, management, and cost of care.

"AMGA has joined BlueCross BlueShield in voicing our mutual concern that compliance with current confidentiality proposals would have the unintended consequence of taking valuable resources away from patient care, research, and charity care. Instead, providers would have to channel limited resource dollars to administer costly new mandates," according to Donald W. Fisher, Ph.D., AMGA's CEO. "Moreover, these new confidentiality protections are likely to threaten the free flow of information among providers, who need to have access to all patient information to deliver appropriate care in a timely fashion. AMGA believes that rather than require providers to invest scarce resources in expensive databases, infrastructure, training and development, medical records policy should foster innovative and cost-reducing delivery system reforms that truly protect privacy and enhance quality patient care."

The American Medical Group Association® shapes the health care environment by advancing high quality, cost effective, patient centered, physician directed health care. The association's members are physician groups dedicated to the delivery and continuous improvement of comprehensive health care of the populations they serve.

###

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Visit us at our Web site <http://www.amga.org>



## **Confidentiality: Protecting Consumers While Avoiding Complex Requirements That Increase Costs and Impede Health Care Operations**

Blue Cross and Blue Shield Plans believe that consumers should be assured that their medical records are confidential. Federal confidentiality legislation should balance the need to safeguard patient medical records while ensuring that health plans and providers are able to efficiently provide health care services.

Blue Cross and Blue Shield Association (BCBSA) is concerned that some proposals could hamper health plans' ability to handle day-to-day operations, including paying claims on time and assuring quality, and could require major computer system redesigns that will significantly increase premiums. BCBSA recommends that legislation should:

- **Protect Consumers:** All subscribers and patients should be confident that their medical records are kept confidential.
- **Be Practical and Simple:** Federal confidentiality rules must be practical and straightforward, so that providers and health plans can adopt and implement them. Consumers' rights must be easily understood. Complex rules will only confuse and frustrate consumers, and could hamper effective implementation throughout the industry.
  - **Authorizations:** BCBSA recommends that legislation should provide for "statutory authorizations" – allowing health plans to pay claims and perform other essential functions without first obtaining brand new written authorizations. Some proposals would require health plans to obtain one or multiple new authorizations from all enrollees. If these authorizations were not obtained, health plans could not process claims and would have no choice but to drop these individuals from coverage. As an example, Medicare serves over 38 million beneficiaries; it would be virtually impossible to obtain new approvals from **all** these individuals. Congress should avoid rules that place consumers at risk.
  - **Tracking:** Insurers process thousands of claims daily that involve communications with other organizations. BCBSA urges Congress to avoid requirements to track disclosures that are essential to day-to-day health plan functions. For example, virtually all bills would require health plans to track each time a health plan coordinates benefits (sends another insurer a claim for payment) or discloses information to a provider. This would require significant systems changes and add unnecessary costs to subscriber premiums.
  - **Inspection and copying:** BCBSA believes that patients should be allowed to inspect and copy their medical records. However, the vast majority of information that health plans maintain is administrative in nature (e.g., claims) and does not reflect actual patient medical records. The way most legislation is currently written, virtually every piece of information in a health plan could be copied and amended. This would require health plans to redesign their computer systems and operations to centralize all plan data -- an extremely expensive investment.

- **Allow for Innovation and Flexibility:** The delivery and financing of health care continues to evolve at an exponential rate as new technologies and therapies are introduced and as e-commerce revolutionizes the way health care entities conduct business. Legislation should assure that health plans and providers can continue to evolve and provide innovative benefits to consumers.
  - The bills establish specific definitions of today's health plan functions. We are concerned that such strict definitions could limit health plans' roles as they seek to redefine themselves to meet consumer demands of the 21<sup>st</sup> century. To illustrate, if Congress codified the definition of health plan functions ten years ago, they would have omitted wellness, disease management, and other quality programs that health plans commonly provide today.
- **Have An Achievable Implementation Date:** Considering the challenges that health plans already face in terms of systems changes and backlogs due to Y2K, it is imperative that federal confidentiality legislation have a workable, achievable effective date.
  - We urge an effective date of plan years beginning on or after 2 years after promulgation of final regulations.
- **Provide for Uniformity:** Given the complex and interstate nature of the way information flows in today's health care environment, and the increasingly integrated nature of our health care delivery system, we believe consistent rules across the country are critical to assuring uniform treatment of confidential information.
  - A broad federal preemption of state confidentiality laws is necessary to achieve uniform protection of patient health information. Moreover, federal preemption would allow health plans which are increasingly operating across state lines and consolidating certain functions (e.g., claims processing, payment of bills, etc.) to improve efficiency and decrease costs on behalf of subscribers
- **Avoid Excessive Penalties:** While appropriate penalties should apply for violations under federal confidentiality legislation, Congress should not impose a new private right of action allowing individuals to file lawsuits against health plans, providers, employers, and others. Unfortunately, it is subscribers who suffer most because premiums would ultimately be increased to cover the costs of frivolous lawsuits. Moreover, some employers, especially smaller employers, may view the increased liability as an unacceptable risk and drop their employer sponsored health coverage altogether.

## **Cost and Impact Analysis**

# **Common Components of Confidentiality Legislation**

Prepared by



**Robert E. Nolan Company, Inc.**

Fall 1999

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### III. EXHIBITS

# **I. EXECUTIVE SUMMARY**

## Overview

---

### • Background

The BlueCross BlueShield Association asked the Robert E. Nolan Company, Inc. to develop a fact-based analysis of federal confidentiality proposals to determine their impact on the U.S. health care economy. The analysis in this report addresses these issues using public sources, interviews, publications, and simulations to illustrate the costs and impacts of common components of confidentiality proposals. This report focuses on the costs of common components on specific sectors of the health care industry (e.g. health plans, doctors and hospitals). The report does not estimate all provisions included in proposals, nor does it capture all sectors. It specifically focuses on: standards regarding authorizations; requirements to track disclosures of protected health information, and the ability of patients/subscribers to inspect, copy and amend their protected health information. Implementation of these standards would require substantial investment in additional infrastructure, such as system modifications and training of personnel. And finally, certain cost and quality management programs could be affected, including disease management and physician referral.

It is important to note that virtually all proposals include a very broad definition of protected health information (PHI). This definition is *not* limited to a patient's traditional medical record, but instead includes all information accompanied by a person's name, social security number or other identifying feature. This includes oral, electronic or paper files (e.g., customer service recordings, e-mails, and internal memorandum).

### • Findings

Today's health care industry is made up of more than 12 million providers, payers, researchers and suppliers in more than 500,000 companies, not-for-profit organizations and research facilities. They work in close cooperation on behalf of patients, to provide the best health care in the world. More often than not, they do not work in the same organization, but communicate information about patients freely so that a patient's needs are met and dangerous drugs or treatments are avoided. This unrestricted movement of patients and information across organizational boundaries is a fundamental requirement of today's health care system. Common components of confidentiality proposals would significantly restrict the timeliness and freedom of movement of data between healthcare providers. Additional costs would be borne by all Americans through increased premiums and added costs for administration.

In addition to the costs that would be incurred to comply with the law's provisions, the legislation affects the care and administration of benefits as follows:

- First, it shifts resources away from patient care to administration, threatening investments in new technology and processes that improve the quality and effectiveness of care.
- Second, it threatens the free flow of information among providers and payers, who need to have available all forms of patient information to deliver the appropriate care in a timely way and to avoid dangerous drug interactions. Some treatments would inevitably be denied or delayed, thus threatening the safety of patients.

We've found that the implementation of commonly proposed confidentiality standards would add an additional \$43 billion in costs over a 5 year period. These costs would be administrative in nature and not add additional benefits. The \$43 billion in administrative costs exceeds the five year estimated budgets of the Children's Health Insurance Program (\$22 billion) or a Medicare Prescription Drug benefit (\$37 billion). It is important to note that this study does not address the added costs of lawsuits that would arise as a result of a new federal confidentiality proposal. The \$43 billion in costs stems from the following:

- |                                                                                                                                                                                                                                                 |                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| ➤ Rules requiring new authorizations from current subscribers to use their data for treatment, payment of claims, or other health plan operations                                                                                               | \$1.94 billion |
| ➤ Requirements that providers, health plans, etc. track disclosures of PHI and retain for 7 years                                                                                                                                               | \$9.1 billion  |
| ➤ Standards that allow patients and subscribers to inspect, copy and amend <u>all</u> information that includes their name, social security # or other identifying feature (e.g. customer service phone calls, internal memorandum, claim runs) | \$4.0 billion  |
| ➤ Infrastructure supporting implementation of above provisions (systems, training, and other compliance costs)                                                                                                                                  | \$23.4 billion |

- Inability to conduct medical management operations such as disease management \$4.4 billion

Like all cost estimates, these are dependent upon our underlying assumptions. We believe our assumptions are reasonable -- sometimes even conservative -- for instance we've assumed that the tracking of each disclosure will take a little over one minute, the location of physician records will take 10 minutes, hospital records 15 minutes, and health plan records 90 minutes. Adopting less conservative assumptions would increase the total cost by billions of dollars.

## **Patient Privacy**

**Total \$42.8 billion  
(5 years)**

### **Authorization Standards**

**Total: \$1.94 billion**

### **Tracking and Disclosure**

**Total: \$9.1 billion**

### **Inspection, Copying And Amendment Standards**

**Total: \$4 billion**

### **Infrastructure Support (Systems, Compliance & Training)**

**Total: \$23.4 billion**

### **Impact on Medical Management**

**Total: \$4.4 billion**

## Authorizations Summary

---

### Description:

A *new* authorization to release protected health information must be collected for health plan members, including current subscribers.

### Assumptions:

Plans must collect an initial consolidated authorization for all covered members beyond the age of 17.

### Description of Concerns:

- Employers and health plans would duplicate efforts
- Chasing authorizations for existing members would be difficult, time-consuming and costly

### Key sectors modeled:

- Employers and health plans

### Key elements *not* modeled:

- Doctors, hospitals and other providers
- Amended authorizations (e.g. carving out mental health care operations)
- Added cost of denied claims when authorizations cannot be secured
- System costs included in Infrastructure Support

### Five year cost impact:

\$ 1.9 billion

## Tracking and Disclosure Summary

---

### Description:

Privacy legislation requires providers and health plans to establish and maintain a system for tracking disclosures of protected health information. Providers also must comply with “scope of disclosure” rules that limit disclosed data information to the minimum necessary. Records must be maintained for seven years.

### Assumptions:

Most providers would use paper-based systems to track disclosures on patient records. Health plans and insurers would develop systems and adapt workflow to accommodate the tracking requirements. Significant time would be spent reviewing records to assure compliance with scope of disclosure rules.

### Description of concerns:

- Places additional burdens on the staff of office-based providers
- Providers and plans would need to track disclosures made outside of their offices
- Provisions of the legislation would also necessitate the modification and creation of computer systems

### Key sectors modeled:

- Providers (physicians, hospitals, ancillary and pharmacy) and health plans

### Key elements *not* modeled:

- Employers, schools, universities, life insurers
- Some tracking disclosures were not included, such as those between: hospitals/physicians and family/friends
- Used conservative assumptions on hospital and nursing home disclosures (one per month per patient)
- System costs included in Infrastructure Support

### Five year cost impact:

\$9.1 billion

## **Inspection, Copying and Amendment Summary**

---

### **Description:**

Privacy legislation expands the ability of patients and members to gain access and amend their “protected health information.”

### **Assumptions:**

Modeled small volume for hospitals (1.25%) physicians (2%) and other ancillary providers, and health plans (0.5%). Providers and plans must also develop new methods for verifying the identifications of requesters; legislation also requires employers, providers and plans to post inspection and copying rights. Assumptions regarding record location: health plans 90 minutes, hospitals 15 minutes, and doctors 10 minutes.

### **Description of Concerns:**

- Places significant new burdens on the staffs of providers
- Raises concerns about ability to produce all information such as e-mails or internal correspondence

### **Key sectors modeled:**

- Providers (office and facility-based) and health plans

### **Key elements *not* modeled:**

- Employers, schools, universities, life insurers
- System costs included in Infrastructure Support

### **Five year cost impact:**

\$ 4 billion

## **Infrastructure Support Summary**

---

### **Description:**

To comply with the provisions of proposed legislation, all health care providers and payers would need to develop new infrastructure, including hiring of new officer level personnel and compliance staff; systems must be modified to accept new data and to display and store that data for future capture; virtually all staff would need to receive training; contracts would need to be reviewed and modified accordingly.

### **Assumptions:**

All organizations would make good faith efforts to comply with the legislative provisions.

### **Description of Concerns:**

- System related issues cause significant concern because they compete with Y2K and HIPAA compliance efforts
- Expenses related to compliance with legislation would be significant

### **Key sectors modeled:**

- For training and compliance: All sectors except schools and universities
- For system changes: hospitals and health plans

### **Key elements *not* modeled:**

- No system changes for employers
- No new data capture system for providers

### **Five year cost impact**

\$23.4 billion

## **Medical Management Summary**

---

### **Description:**

The ability of members to revoke or amend authorizations would affect the ability of HMOs to perform disease and referral management.

### **Assumptions:**

Small changes in the numbers of members who effectively “opt out” of these operations.

### **Description of Concerns:**

- Creates a mechanism for members to opt out of managed care provisions
- Compromises the ability of organizations to care for members and patients

### **Key sectors modeled:**

- HMOs

### **Key elements not modeled:**

- Included only disease management and referrals
- Did not model impact of drug utilization review or other ancillary reviews
- PPOs, Fee-for-service insurers, or clinics

### **Five year cost impact:**

\$4.4 billion

## II. REPORT FINDINGS

## Methodology

---

The methods used in developing this report were based on the Robert E. Nolan Company, Inc.'s 27 years of experience in process design and redesign for more than 450 managed care companies, insurers, providers and service organizations. The analysis is based on models and simulations of how confidentiality proposals are likely to be implemented. We recognize that regulations have not been created, which means the analysis is prospective in nature. Still, we were able to use our experience and reasoned judgments to describe how organizations would attempt to implement the bill.

The models consist of the following elements:

- **Volumes:** Derived from estimates from two or more sources whenever possible. Where volumes were unavailable, we made the most conservative estimates consistent with “reasonable, common sense” assumptions.
- **Standard Unit Time (SUT) estimates:** Developed for the major, high-volume processes using Advanced Office Controls (AOC), a Nolan proprietary technology that employs time and motion methods.
- **Labor costs:** Derived from government sources, the Warren HMO Salary Survey, and the Medical Management Group Association.
- **Benefits:** Calculated at 20 percent, a typical load for health care or health benefit companies.
- **Overhead:** Assigned at 20 percent to account for systems, space, utilities and other infrastructure costs.

We modeled the study over a five-year horizon. We assumed the current technology over this period.

We have attempted to reduce the complexity of the legislation by clustering the costs into “pillars.” The pillars tend to be costs associated with transactions. We have added to the pillar concept the notion of infrastructure support, which refers to such issues as compliance, training and systems costs.

## ***Pillar — Authorizations for Release of Protected Health Information***

### *Discussion*

It is common to most confidentiality proposals to require employers and health plans, and in some circumstances, providers to secure an authorization form as a condition of enrollment in a health plan. This model addresses the simplest form of authorization -- a consolidated one that covers treatment, payment and health care operations. In some proposals, patients may amend or revoke all or part of their authorization. Those complex authorization proposals were not modeled.

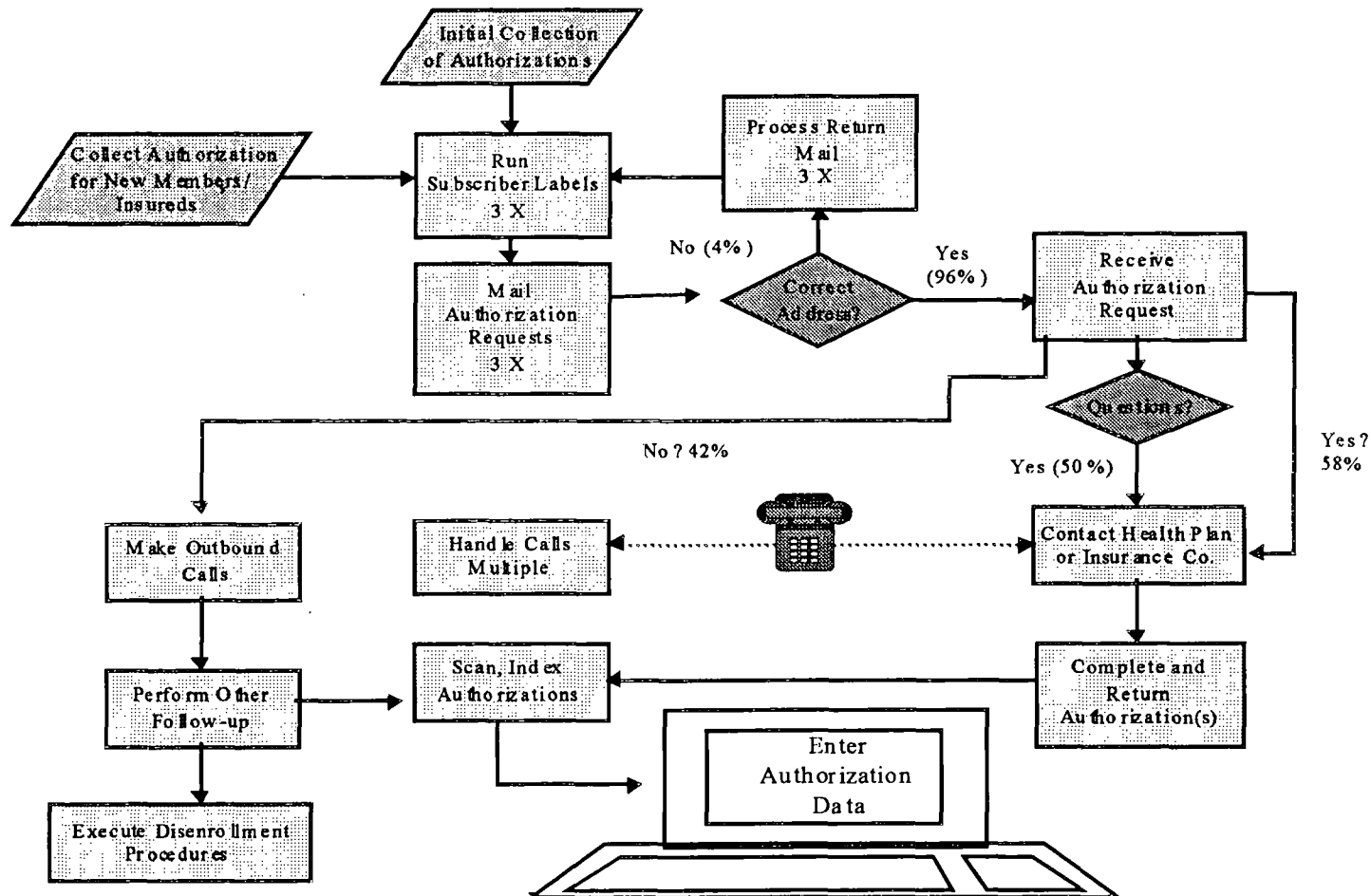
The development, collection and data entry of authorizations would create a new transaction type for employers, health plans and providers. Proposals generally require employers to collect the authorization for their employees; plans for non-group members; and, providers for all others. However, it is most likely that plans would collect their own authorizations from group members, as would employers. Providers already collect authorizations for treatment and medical record disclosures, though they have no mechanism for storing any revocations or amendments.

#### • **Creation, collection and data entry of authorization forms**

The authorization form would need to be reviewed by legal staff, printed and distributed. Our analysis anticipates both employers and health plans collecting the authorization because of the complexity involved in employers collecting and passing the authorization to health plans. Health plans would view themselves as being at risk if the employer failed to collect the authorization.

In addition, it would be necessary to gather signatures of all covered adults, including children over 17 years of age. The plan, insurance company, or employer would answer inquiries, and many members would ignore or refuse to sign the authorization. Without an authorization, many members could be denied access to care because no release of information can then occur. Meanwhile, the costs of mailing, re-mailing, answering inquiries, making outbound calls and performing data entry in the newly created authorization computer screens would result in expenses of nearly \$1.94 billion. (See **Authorizations, Exhibits A-1, A-2 and A Support**)

## Authorization Process Map (Health Plan)



## ***Pillar—Tracking and Disclosure***

### *Discussion*

The tracking and disclosure requirements common to all confidentiality proposals are expensive and burdensome. Because most health plans and insurance companies need to limit their liability from lawsuits, they treat providers with whom they contract as “non-agents” and would thus be required to track each “disclosure” of protected health information (PHI.) Confidentiality proposals generally define protected health information very broadly, including *all* information (e.g. electronic, oral, written) that includes a subscriber/patient’s name, social security number or other identifying information.

Virtually all provider organizations and payers would be required to keep detailed logs and records of disclosures for at least seven years. Proposals generally require all “health related entities” to “establish and maintain, with respect to any protected health information disclosure, a record of such disclosure.” Because 97 percent of office-based records today are paper, it is reasonable to assume that paper logs would be created to accompany medical records to track disclosures in physician offices (See example on page 18). We anticipate most organizations would create databases to track disclosures on a systematic basis. (See next section on the associated costs of developing these databases.) Scope of disclosure requirements limit the use or disclosure of PHI “to the information and individual...necessary to accomplish the purpose for which the information is disclosed.” Among the consequences of this section is to place limits on access to the full medical record, where “non-related” segments of the record might be needed in the care of the patient.

- **Tracking of referred services**

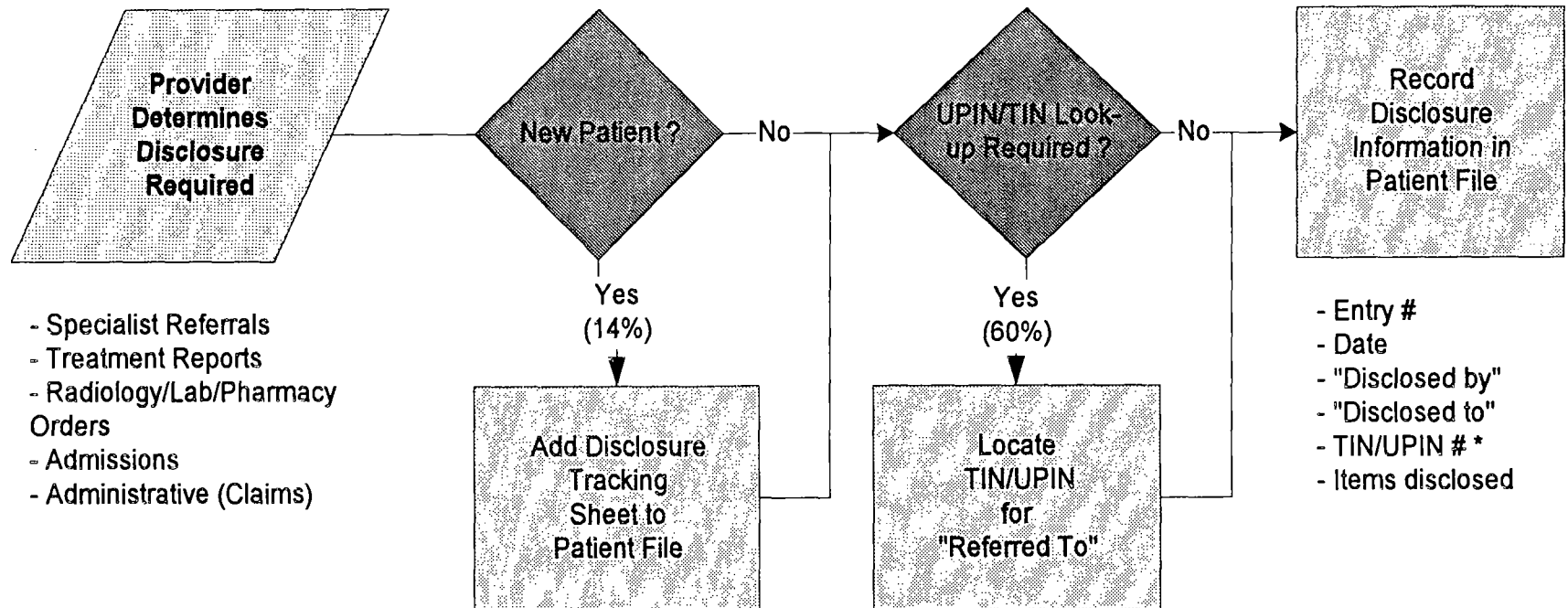
Tracking disclosures among providers would create more than 2 billion entries in manual logs every year. (See **Disclosure Volumes, Exhibit B**) In addition, it is estimated that another 1.9 billion entries would be generated for administrative reasons, i.e. claims submission, billing, etc. (See **Disclosure Process** on page 17) The placement of logs in medical records and the recording of information would inject new costs into physician office practices, placing undue burdens on small providers. We analyzed the cost of these tracking requirements using a proprietary technique called Automated Office Controls (AOC), which sets standards for administrative procedures. The care and maintenance of these logs and their updating would become a significant burden over time and would likely necessitate the creation of databases to store all of the disclosures. (See **Disclosure Costs, Exhibit C-1**) Costs for tracking disclosures would exceed \$6.2 billion.

Most proposals also include scope of disclosure requirements. These provisions introduce the need for a new series of record reviews since they limit the release of data to the minimum necessary to accomplish a specific task. A consequence of "scope of disclosure" is that it applies to the records copied by physician offices prior to any inpatient or outpatient admission, or from a primary care physician to a specialist. This step adds nearly \$1.9 billion to the current process of record release and could delay the release of critical records by requiring review of those records prior to release. This requirement would apply to physicians who have staff privileges in hospitals, contracted network physicians, and any physician to physician or physician to other provider release (such as reference labs, radiology centers and pharmacies). This new requirement conflicts with standard medical practice of exchanging complete medical records and it could prevent the timely transfer of records to the location where they are needed. This would also threaten the integrity and quality of patient healthcare as abridged records may not include valuable information. **(See Scope of Disclosure, Exhibit C-2)** Costs associated with database creation in office-based providers follows in the next section.

- **Physician and other provider office systems implementation**

While paper logs would need to be maintained in all paper files, a more systematic means of recording and tracking disclosures would need to be developed if these disclosures are to be truly accessible. All physician offices, clinical labs, radiology sites, outpatient surgery centers, chiropractors and others would comply with the law's tracking provisions by developing data bases that would store disclosure information for the seven year period called for in the bill. These databases would have front-end costs associated with them that include software, hardware, training and development. While some companies may develop pre-packaged software, some offices would hire an outside contractor to develop unique approaches and these costs would be more significant. The costs associated with these systems would exceed \$1 billion. **(See Exhibit D, Develop Tracking Data Base for Small Organizations)**

## Tracking and Disclosure Process Map



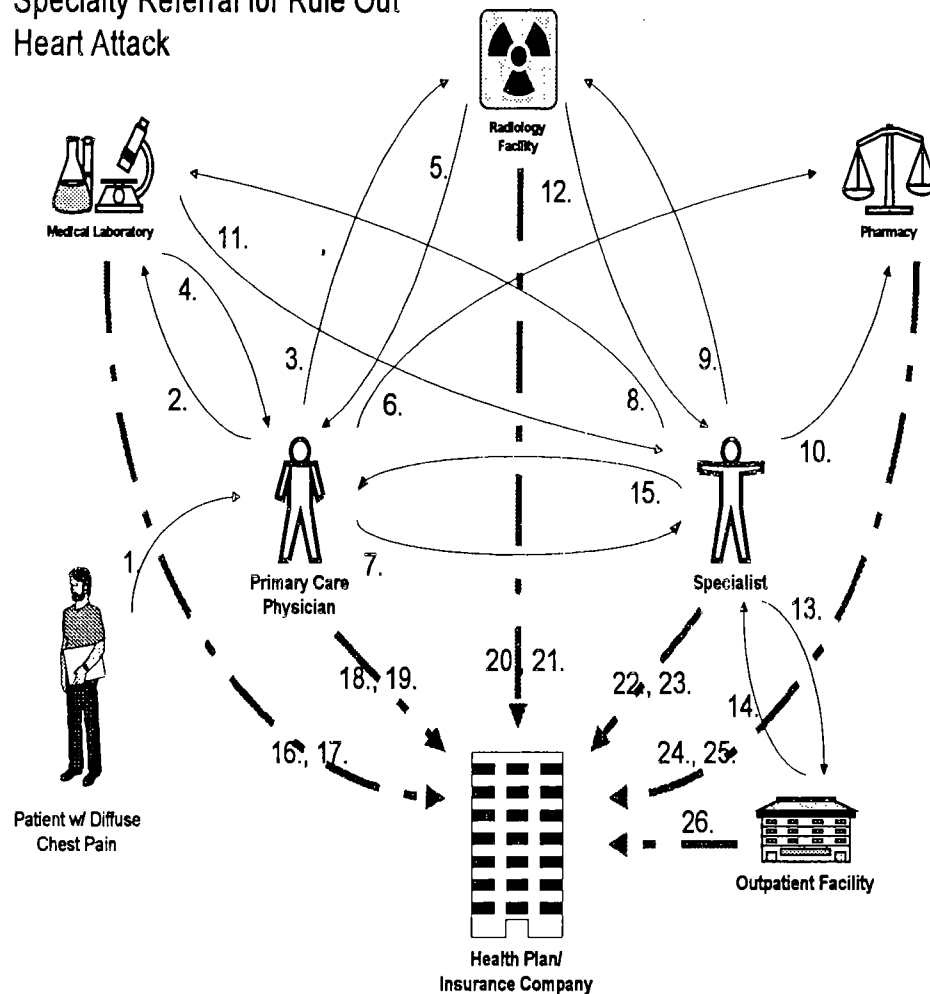
\* TIN=Tax ID #; UPIN=Universal Provider ID #

## Manual Log Example—Physician Office/Hospital

[illegible]

*The diagram on the next page illustrates just how many tracking events would follow a routine referral for a “rule out heart attack.” For each disclosure to a non-agent, a tracking entry would need to be made or recorded. For this illustration a total of 26 disclosures would need to “tracked.”*

# Tracking/Disclosure Illustration Specialty Referral for Rule Out Heart Attack



## Medical Disclosures (Solid lines)

### PCP Visit

1. Patient presents to PCP with diffuse chest pain (no disclosure.)
2. PCP orders lab work (blood screening, enzymes, urinalysis.)
3. PCP orders chest x-ray.
4. Lab reports results of lab work to PCP.
5. Radiologist sends x-rays, interpretation to PCP.
6. PCP orders prescription.
7. PCP refers patient to Specialist.

### Specialist Visit

8. Specialist orders additional lab work (new blood enzyme, blood gas.)
9. Specialist orders additional radiology work (echocardiogram.)
10. Specialist orders additional prescription.
11. Lab reports back to Specialist.
12. Radiologist reports back to Specialist.
13. Specialist sends patient to Outpatient facility for Cardiac catheter analysis.
14. Outpatient facility sends report back to Specialist.
15. Specialist rules out MI, reports back to PCP.

## Administrative Disclosures (Dotted lines)

- 16., 17. Lab Claims
- 18., 19. PCP Claims
- 20., 21. Radiology Claims
- 22., 23. Specialist Claims
- 24., 25. Pharmacy Claims
26. Outpatient Facility Claim

## ***Pillar — Inspection, Copying and Amending of Protected Health Information***

### ***Discussion***

All confidentiality proposals to date provide new rights to individuals to copy, inspect and amend their “protected health information.” Most proposals allow providers and health plans to review these records and, if appropriate, redact information that could harm patients or that “identifies, or could reasonably lead to the identification of, a person who provided information under a promise of confidentiality concerning the individual who is the subject of the information.” While very few medical records may contain information harmful to a patient or which mentions a confidential source, all records would need to be reviewed prior to release for liability purposes.

Confidentiality proposals also require providers, payers, employers, and others to “conspicuously post” patient rights to inspect and copy their records. The cost of this requirement exceeds \$654 million.

#### **• Inspecting, Copying and Amending Records**

The volume of patient/subscriber requests may change significantly upon passage of federal confidentiality legislation. We’ve estimated 2 percent of individuals will request records from their doctors and 1.25 percent from hospitals. Moreover, a formal process of verifying the requester of information must replace the process of verification currently in place in the health care community. This would require additional staff to perform the tasks of checking a paper reference, calling a practitioner data bank, etc.

The language in the proposals in regard to amending records would also create dilemmas for many in the health insurance and health care community. Sections that deal with rights of patients in regard to records that providers may refuse to amend are troubling. Who would be liable for the integrity of the record, the patient or provider? How would information in regard to the disputed issue be transmitted to other providers? What liability would there be for providers who act on disputed medical information? The number of amendment requests that end in dispute could unhinge the integrity of the medical record concept as a provider’s tool to help patients and leave a trail of liability issues for providers and payers.

The total five-year estimate for inspection, copying and amending records is estimated at \$3.3 billion. (***See Inspect, Copying and Amendment, Exhibit E-1 and E-2***)

- **Posting Expense**

The posting requirements in the bill would cost American businesses more than \$654 million. Costs would be in the areas of developing the postings, legal review, printing, distributing, and maintaining the posting locations. **(See Inspect, Posting Expense, Exhibit F).**

## ***Pillar — Infrastructure Support***

### ***Discussion***

Compliance with common components of confidentiality proposals would require a significant investment in new infrastructure, including the assignment of an Information Protection Officer (IPO), providing adequate training to personnel, and system modifications.

Interviews with health plan and insurance staff indicate the need to staff the IPO position in larger organizations with a compliance professional, while other organizations would devote lesser resources to this position. In developing estimates for the IPO section, we assumed that the complex organization would hire a compliance officer while mid-sized organizations would assign a half-time compliance coordinator to comply with the law. Smaller organizations would assign a lower level person and would likely have someone attend a training or seminar class or engage a consultant or trainer to comply with the act. Perhaps an unintended consequence of this section is that employers would designate an IPO since the benefits departments, human resource staff and others in companies large and small handle PHI routinely when talking to employees about disputed claims, benefits questions and other personal matters.

Proposals also would require health plans to track information and limit access to some records. This would create the need for expensive system modifications for health plans, insurance companies and hospitals.

Compliance and legal costs would be significant as organizations struggle to comply with the confidentiality provisions. Patients would request records and then provide these to attorneys for review. It is reasonable to conclude that more medical malpractice lawsuits would be filed. Legal expenses and settlements would both increase although these results were not included in this model. Other compliance costs include contract review of provider and employer agreements, which we included in the model.

- **Implementation of Information Protection Officer**

Confidentiality proposals require most organizations handling protected health information to “designate” an IPO to “maintain safeguards” described in the bill. They also mandate that personnel be given “appropriate training, supervision and sanctioning.” These provisions would be implemented in a variety of ways depending upon the size and complexity of the organization and the current infrastructure in place to address privacy issues and the release of information. For instance, in large insurance, managed care and health system organizations, a relatively high level professional would be employed while in a solo physician practice, a lower level person would have the task of ensuring compliance, training and implementation of policies. Implementation of this section and the ongoing funding of the positions would cost

organizations more than \$16.4 billion over five years. (See Information Protection Officer, Exhibit G) However, even if proposals did not require the designation of an IPO, the breadth and complexity of the new standards would necessitate that organizations do so anyway or it would be impossible for them to successfully comply with the full scope of confidentiality standards.

- **Training of Staff**

Successful compliance with new confidentiality provisions is dependent upon having well-trained staff who understand the provisions of the law. The training is important to change behavior in the use of protected health information. Health care and administrative organizations would need to commit significant resources to training staff. The five-year expense is approximately \$1.4 billion. (See Training, Exhibit H)

- **Health Plan and Hospital System Modifications**

The provisions for collecting and retaining authorizations would require the addition of new data elements to enrollment systems in health plans, health insurance companies and other administrative entities. According to interviews with systems executives and staff in a variety of regional health plans, the costs to alter these systems ranges from \$250,000 to \$400,000 per system in design, programming and testing costs. The results of our estimates are displayed below:

**Health Plan/Insurance Company System Expense Summary**

| Company Type                       | # of firms   | Average number of systems | Expense per system | Average per Organization | Total cost           |
|------------------------------------|--------------|---------------------------|--------------------|--------------------------|----------------------|
| HMOs and related insurers          | 683          | 2.2                       | \$300,000          | \$578,000                | \$451,000,000        |
| Health and other related insurers* | 380          | 2                         | \$500,000          | \$800,000                | \$380,000,000        |
| <b>Total</b>                       | <b>1,063</b> |                           |                    |                          | <b>\$831,000,000</b> |

*\* Note: Health and other related insurers include only insurance companies that write health, disability or worker's compensation coverage. (Source: A.M. Best)*

Hospital systems executives interviewed for this study estimated the cost of changes at \$1 million for large, complex systems. Local implementation and coordination would involve as much as 700 hours of programming, testing and coordination with other systems. Hospital costs for smaller facilities would run more than \$235,000 per facility. Total hospital system costs would run approximately \$460 million. (See **Hospital Systems, Exhibit I**)

To comply with confidentiality proposals, health plans and health insurers also would need to develop central data repositories where all information disclosed about a particular member or patient would need to be indexed and stored over the seven-year window. The cost of this kind of systematic "locator" tool would be significant. Developing interfaces to all systems in which PHI is held and used is a complex and time-consuming task. Such systems would need to hold keys to that information and be cross-referenced by member. It would need to contain data from a variety of systems and be updated on a real-time or batch process.

The highlights of that central data repository include the following:

- Interface to all systems holding PHI, including claims, managed care, call tracking, underwriting, enrollment, indemnity, PPO, re-pricing and others
- Restricted security access

The costs to implement such a system were difficult to determine, but systems personnel interviewed in regional plans could make reasonable estimates based on a general description of the systems mission. The following summarizes the costs that would be incurred:

**Health Plan/Insurance Company Central Data Repository Expense Summary**

| Type of systems interfaces | Number of companies in category | Cost per implementation | Total cost             |
|----------------------------|---------------------------------|-------------------------|------------------------|
| Complex                    | 50                              | \$40,000,000            | \$2,000,000,000        |
| Mid-level                  | 125                             | \$6,000,000             | \$750,000,000          |
| Simple                     | 888                             | \$1,500,000             | \$1,330,000,000        |
| <b>Total</b>               | <b>1,063</b>                    |                         | <b>\$4,080,000,000</b> |

- **Compliance and related costs**

Proposals generally require a number of compliance-related activities, particularly in contract review. We have estimated the expense associated with this activity at \$173 million. **(See Compliance Costs, Exhibit J)**

## Illustration of Impact

Confidentiality proposals would affect each of the health care constituencies differently, but the impact on providers caring for under served populations would be significant. Community Health Centers, for example, would need to put into place the same privacy protections as larger private clinics. Unlike those private clinics, however, Community Health Centers run on shoestring budgets and volunteer providers. The chart below demonstrates how the proposals would affect the community clinics.

| Impact on Community Health Centers            |                         |            |           |              |              |              |
|-----------------------------------------------|-------------------------|------------|-----------|--------------|--------------|--------------|
| Patients served                               |                         | 10,280,072 |           |              |              |              |
| Federally-supported Primary Health Care Sites |                         | 2,337      |           |              |              |              |
|                                               |                         |            |           |              | Costs        |              |
| Element                                       | Pillar                  | Volume     | Unit Cost | Total cost   | 1 year       | 5 year       |
|                                               | IPO                     |            |           |              | \$6,000,000  | \$25,219,488 |
|                                               | Inspect, Copy and Amend | 8,500,000  | 0.86      | \$7,310,000  | \$7,310,000  | \$26,529,488 |
|                                               | Tracking and Disclosure | 37,000,000 | 0.3       | \$11,100,000 | \$11,100,000 | \$30,319,488 |
|                                               | Authorization *         | 10,280,072 | 1.11      | \$11,410,880 | \$11,410,880 | \$12,609,022 |
| Total >>>>>>>                                 |                         |            |           |              | \$35,820,880 | \$94,677,486 |

\* Cost will be only one-third that of health plans and employers because an authorization is already captured for treatment

## Special Issue — Potential Impact on Medical Management

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Some proposals would allow individuals to revoke or amend authorizations to restrict the flow of information to vendors such as disease management firms that contract with plans to manage care. If even a small number of patients failed to submit their authorization or restricted operations by amending it, costs would increase dramatically because some of these members would have the most severe conditions but would have effectively been dropped from the plan's disease or case management program. Not only would those members lose the benefits of participation, the plan would incur significantly higher costs by not being able to manage those members' costs. **(See Medical Loss Ratio, Exhibit K)**

The potential for opting out of managed care programs such as disease management or referral management creates an additional \$4.4 billion in expense for HMOs. We have not modeled the additional expense for PPOs or other forms of managed care. Below is a summary demonstrating that even a few members opting out of disease management or utilization review programs could lead to significant additional medical expense.

## Impact on Medical Costs — Summary

| Category Description                       | Calculation                                         | Result                |
|--------------------------------------------|-----------------------------------------------------|-----------------------|
| <b>Disease Management</b>                  |                                                     |                       |
| Members in Disease Management (DM)         | 5% of 76 million HMO members                        | 3,800,000             |
| Total costs of members in DM               | 50% of all costs incurred by health plan            | \$59 Billion          |
| Number members not authorizing release     | .3 percent of total                                 | 266,000               |
| Cost savings lost per managed case         | 5% of costs divided by members under management     | \$2,321               |
| Cost savings lost as a result              | 266,000 members times cost savings per managed case | \$617 Million         |
| <b>Total Loss—5 years</b>                  | <b>\$617 million times 5</b>                        | <b>\$3.1 billion</b>  |
| <b>Referral Management</b>                 |                                                     |                       |
| Number of HMO referrals                    | # total referrals times weighted HMO members        | 88,250,000            |
| Cost of average HMO referral               | Average referral cost times 70%                     | \$423                 |
| Opt out from referral management           | Estimated increase in referral rate                 | .5%                   |
| Total referral cost                        | Referrals times average cost                        | \$42 billion          |
| Increase in referral cost                  | Referral cost times opt out percent                 | \$187 million         |
| <b>Total Loss—5 years</b>                  | <b>\$187 million times 5</b>                        | <b>\$933 million</b>  |
| <b>Referrals to non-network physicians</b> |                                                     |                       |
| <b>Total Loss—5 years</b>                  | <b>Assume same .5% opt out percent</b>              | <b>\$402 million</b>  |
| <b>Grand Total Loss—5 years</b>            |                                                     | <b>\$4.44 billion</b> |

## Sources of Information

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We have used government data sources to the greatest extent possible in the analysis and have emphasized multiple sources where they exist. This is particularly true of volumes, organizational counts, and in some instances, wages. Census Bureau data were used extensively in much of the analysis.

Other government sources include:

- National Center for Disease Control and Prevention/National Center for Health Statistics
- U.S. government web sites (HCFA, HHS, Joint Healthcare Information Technology Alliance)
- State regulatory web sites (Department of Insurance, Department of Corporations, State Medical Boards)

For many salary positions, we used the Warren Surveys “The HMO Salary Survey,” Spring 1999.

Proprietary, non-public sources were used when no other data were available. This was typically accomplished through industry contacts and interviews. This is especially true in the legal expense and systems areas.

Other sources of information include:

- InterStudy, Competitive Edge
- Medical Group Management Association, Cost Survey, 1998 Report Based on 1997 Data
- Medical Group Management Association, Physician Compensation and Production Survey
- Hospital Statistics, Emerging Trends in Hospitals, American Hospital Association
- 1998 Directory of Health Care Management Companies
- American Hospital Association’s AHA Guide 2000
- HIAA’s Source Book of Health Insurance Data
- Profile of Health Plans and Utilization Review Organizations, American Association of Health Plans, 1997-1998 Edition
- A.M. Best Aggregates and Averages
- 50-State Survey on Patient Health Care Record Confidentiality, American Health Lawyers Association

### **III. EXHIBITS**

## Pillar - Authorization

## Component – Collection and Data Entry of Authorization (Health Plan, Medicare, Medicaid)

| Mailing and Collection of Authorization                                |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------------------------------------------------|--------------------------------------------|----------------|---------|-------------|-----------|-------------------------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Work Flow Implication Worksheet                                        |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Process steps                                                          | Estd Transaction Vol <sup>1</sup>          | Estd frequency | SUT min | Add time    | Hours     | Cost/hour <sup>2</sup> or unit cost | Total           | Sources/Assumptions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Mailing # 1 (Assumes 40% return rate) <sup>4</sup>                     |                                            |                |         |             |           |                                     |                 | 1. See volume estimates section below.<br>2. Time estimates based on Nolan-developed AOC standards. See appendix.<br>3. Salary cost represents blended rate for a claims analyst/customer service representative. Based on data from Warren HMO Salary Survey, Spring, 1999 edition and Medical Group Management Association (MGMA) Cost Survey, 1998 report. Includes 20% load for benefits and 20% load for overhead costs.<br>4. Response rates based on BCBS plan experience for mandatory FEP COB mailings. |
| 1. Run labels                                                          | 191,200,000                                | 100%           | 0       | 15,296,000  | 254,933   | \$17.24                             | \$4,395,051     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 2. Process mailing - outbound                                          | 191,200,000                                | 100%           | 0       | 47,800,000  | 796,667   | \$17.24                             | \$13,734,533    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 3. Process mailing - Inbound                                           | 76,480,000                                 | 40%            | 0       | 8,412,800   | 140,213   | \$17.24                             | \$2,417,278     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 4. Process return mail                                                 | 11,472,000                                 | 6%             | 0       | 3,441,600   | 57,360    | \$17.24                             | \$988,886       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Mailing # 2 (Assumes 35% return rate) <sup>4</sup>                     |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 5. Run labels                                                          | 114,720,000                                | 60%            | 0       | 9,177,600   | 152,960   | \$17.24                             | \$2,637,030     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 6. Process mailing - outbound                                          | 114,720,000                                | 60%            | 0       | 28,680,000  | 478,000   | \$17.24                             | \$8,240,720     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 7. Process mailing - Inbound                                           | 40,152,000                                 | 35%            | 0       | 4,416,720   | 73,612    | \$17.24                             | \$1,269,071     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 6. Process return mail                                                 | 6,883,200                                  | 6%             | 0       | 2,064,960   | 34,416    | \$17.24                             | \$593,332       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Mailing # 3 (Assumes 30% return rate) <sup>4</sup>                     |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 9. Run labels                                                          | 74,568,000                                 | 65%            | 0       | 5,965,440   | 99,424    | \$17.24                             | \$1,714,070     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 10. Process mailing - outbound                                         | 74,568,000                                 | 65%            | 0       | 18,642,000  | 310,700   | \$17.24                             | \$5,356,468     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 11. Process mailing - Inbound                                          | 22,370,400                                 | 30%            | 0       | 2,460,744   | 41,012    | \$17.24                             | \$707,054       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 12. Process return mail                                                | 4,474,080                                  | 6%             | 0       | 1,342,224   | 22,370    | \$17.24                             | \$385,666       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Phone Calls and other Related Expense                                  |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 13. Gather remaining authorizations                                    | See Related Authorization Cost Spreadsheet |                |         |             |           |                                     | \$189,759,696   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 14. Receive inbound calls                                              | 95,600,000                                 | 50%            | 4.0     | 382,400,000 | 6,373,333 | \$17.24                             | \$109,876,267   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Subtotal - Authorization Mailing and Collection                        |                                            |                |         |             |           |                                     | \$342,076,122   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Data Entry of Authorization                                            |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Work Flow Implication Worksheet                                        |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 1. Scan Authorizations                                                 | 191,200,000                                | 100%           | 0       | 10,516,000  | 175,267   | \$17.24                             | \$3,021,597     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 2. Index Authorizations                                                | 191,200,000                                | 100%           | 0       | 34,607,200  | 576,787   | \$17.24                             | \$9,943,802     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 3. Enter Authorizations                                                | 191,200,000                                | 100%           | 0       | 82,789,600  | 1,379,827 | \$17.24                             | \$23,788,212    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Subtotal - Entry of Authorization                                      |                                            |                |         |             |           |                                     | \$36,763,611    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Other associated costs                                                 |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 1. Postage - Outgoing                                                  | 380,488,000                                |                |         |             |           | \$0.26                              | \$98,926,880    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 2. Postage - Incoming                                                  | 139,002,400                                |                |         |             |           | \$0.35                              | \$48,650,840    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 3. Printing                                                            | 380,488,000                                |                |         |             |           | \$0.05                              | \$19,024,400    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 4. Phone line charges (4 min/call)                                     | 175,865,760                                |                |         |             |           | \$0.10                              | \$17,586,576    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 5. Disenrollment costs                                                 | See Related Authorization Cost Spreadsheet |                |         |             |           |                                     | \$264,099,759   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Subtotal - Other Costs                                                 |                                            |                |         |             |           |                                     | \$448,288,455   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| TOTAL COSTS - Collection and Data Entry of Authorization (Health Plan) |                                            |                |         |             |           |                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| TOTAL COSTS - Year 1                                                   |                                            |                |         |             |           |                                     | \$827,117,188   | 5. Year 2-5 assumes 10% membership turnover, 5% inflation.                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| TOTAL COSTS - Year 2-5 <sup>5</sup>                                    |                                            |                |         |             |           |                                     | \$347,389,219   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Total Collection and Entry of Authorizations                           |                                            |                |         |             |           |                                     | \$1,174,506,407 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

## VOLUME ESTIMATES (Source data = U.S. Census Bureau, Official Statistics Abstract: 1998)

|                                        |             |                                          |
|----------------------------------------|-------------|------------------------------------------|
| # of Medicare Insureds                 | 35,200,000  |                                          |
| # of Medicaid Adults                   | 16,000,000  |                                          |
| # of Covered Persons over age 17/Group | 119,000,000 | Employers/Health Plans will both collect |
| # of Covered Persons over age 17/Ind   | 21,000,000  | Individuals                              |
| Total # of Authorization Requests      | 191,200,000 |                                          |

Health Insurance Coverage Status, 1996, Census Bureau, Table No. 181  
Health Insurance Coverage Status, 1996, Census Bureau, Table No. 181  
Health Insurance Coverage Status, 1996, Census Bureau, Table No. 181



| Related Authorization Cost Spreadsheet  |             |                 |      |          |                    |                  |                    |
|-----------------------------------------|-------------|-----------------|------|----------|--------------------|------------------|--------------------|
|                                         |             |                 |      |          |                    |                  |                    |
|                                         |             | Mail unreturned |      |          |                    |                  |                    |
| Total mailing                           | 191,200,000 | 42%             |      |          |                    |                  |                    |
| Calls out                               |             |                 | Freq | me (Min) | Total minutes      | Hours            | Rate               |
| Hit                                     | 80,304,000  |                 | 0.3  | 5        | 120,456,000        | 2,007,600        | \$17               |
| Miss                                    | 80,304,000  |                 | 0.7  | 1        | 56,212,800         | 936,880          | \$17               |
| Hit                                     | 56,212,800  |                 | 0.3  | 5        | 84,319,200         | 1,405,320        | \$17               |
| Miss                                    | 56,212,800  |                 | 0.7  | 1        | 39,348,960         | 655,816          | \$17               |
| Hit                                     | 39,348,960  |                 | 0.3  | 5        | 59,023,440         | 983,724          | \$17               |
| Miss                                    | 39,348,960  |                 | 0.7  | 1        | 27,544,272         | 459,071          | \$17               |
| Certified Letter                        | 27,544,272  |                 | 0.5  |          |                    |                  | \$2                |
| Additional call                         | 13,772,136  |                 | 0.3  | 5        | 20,658,204         | 344,303          | \$17               |
|                                         | 13,772,136  |                 | 0.7  | 1        | 9,640,495          | 160,675          | \$17               |
| Disenrollment letter                    | 9,640,495   |                 |      |          |                    |                  | \$2                |
| Inbound calls                           | 7,230,371   |                 | 1    | 5        | 36,151,857         | 602,531          | \$17               |
| <b>Subtotal Calling and other Costs</b> |             |                 |      |          | <b>453,355,228</b> | <b>7,555,920</b> |                    |
| <b>Disenrollment process</b>            |             |                 |      |          |                    |                  |                    |
| Remaining uncolled                      | 2,410,124   |                 |      |          |                    |                  |                    |
| Process disenrollment                   | 2,410,124   |                 |      | 10       | 24,101,238         | 401,687          | \$17               |
| Send letter to individual               | 2,410,124   |                 |      |          |                    |                  | \$2                |
| Send letter to employer                 | 2,410,124   |                 |      |          |                    |                  | \$2                |
| Legal review of letter                  | 2,410       |                 |      | 90       | 216,911            | 3615             | \$80               |
| Legal response from                     | 2,410,124   |                 |      | 60       | 144,607,428        | 241,012          | \$100              |
| Re-enroll member                        | 2,169,111   |                 |      | 10       | 21,691,114         | 361,519          | \$17               |
| <b>Subtotal Disenrollment Costs</b>     |             |                 |      |          |                    |                  | <b>264,099,759</b> |

Cost of certified letter plus BRE

Cost of certified letter plus BRE

Cost of certified letter plus BRE

Cost of certified letter plus BRE

**Pillar - Authorization****Component -- Collection and Data Entry of Authorization (Employer)**

| <b>Creation and Collection of Authorization</b>                         |                                          |                    |              |                       |                              |                    |                                                             |
|-------------------------------------------------------------------------|------------------------------------------|--------------------|--------------|-----------------------|------------------------------|--------------------|-------------------------------------------------------------|
| <b>Work Flow Implication Worksheet</b>                                  |                                          |                    |              |                       |                              |                    |                                                             |
| Process steps                                                           | Est'd<br>Transaction<br>Vol <sup>1</sup> | Est'd<br>Frequency | SUT<br>(Min) | Add'l time<br>(Hours) | Cost/hour<br>or<br>unit cost | Total              | Sources/Assumptions                                         |
| Planning, meetings, compliance related activities--complex <sup>1</sup> | 647,766                                  | 100%               | 360          | 3886594               | 40                           | 155,463,744        | One hour legal, one hour HR Director, four hours generalist |
| Planning, meetings, compliance related activities--simple <sup>1</sup>  | 2,591,062                                | 100%               | 90           | 3886594               | 25                           | 97,164,840         |                                                             |
| Calls with questions                                                    | 119,000,000                              | 50%                | 5            | 4958333               | 17                           | 85,481,667         | Average for health plans                                    |
| Second call                                                             | 119,000,000                              | 25%                | 5            | 2479167               | 17                           | 42,740,833         | Average for health plans                                    |
| Follow-up time                                                          | 119,000,000                              | 25%                | 10           | 4958333               | 26                           | 128,916,667        | Human Resources Generalist                                  |
| Creation and printing                                                   | 119,000,000                              | 100%               |              |                       | 0.25                         | 29,750,000         |                                                             |
| <b>First year cost</b>                                                  |                                          |                    |              |                       |                              | <b>539,517,751</b> | 1. Number of firms offering health insurance (CDC)          |
| <b>Subsequent year</b>                                                  |                                          |                    |              |                       |                              | <b>53,951,775</b>  | 2. Number of covered employees plus spouse                  |
| <b>Total Creation and Collection of Authorization--Five Years</b>       |                                          |                    |              |                       |                              | <b>766,115,206</b> | 3. Use Warren Survey, 1999                                  |

**Pillar - Tracking and Disclosure**  
**Component – Encounter, Disclosure Volumes**

Exhibit B

| Encounter, Disclosure Volumes       |                         | All figures in thousands       |         |         | Year | Data Source                                                                                           | Notes                                                                                                                                                                                                                                                                                   |
|-------------------------------------|-------------------------|--------------------------------|---------|---------|------|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Encounter Category                  | Annual Encounter Volume | Est'd Annual Disclosure Volume |         |         |      |                                                                                                       |                                                                                                                                                                                                                                                                                         |
|                                     |                         | Medical                        | Admin.  | Total   |      |                                                                                                       |                                                                                                                                                                                                                                                                                         |
| Primary Care Physician Visits       | 463,140                 | 259,386                        | 463,140 | 722,526 | 1997 | 1. HHS, Centers for Disease Control and Prevention, Facts about Family Practice                       | Volume of medical disclosures from PCP to specialist estimated at 80% of referral volume due to multiple visits per referral.                                                                                                                                                           |
| Specialist Visits                   | 324,232                 | 259,386                        | 324,232 | 583,618 | 1997 | 1. HHS, Centers for Disease Control and Prevention, Facts about Family Practice                       | Volume of medical disclosures from Specialist to PCP estimated at 80% of referral volume due to multiple visits per referral.                                                                                                                                                           |
| Outpatient Hospital Visits (Non-ER) | 76,993                  | 153,986                        | 76,993  | 230,979 | 1995 | 2. United States National Center for Health Statistics, National Health Interview Survey, 1996 - 1997 | Volume of medical disclosures includes (1) referral from PCP/Specialist to Outpatient facility and (2) report from Outpatient facility back to PCP/Specialist                                                                                                                           |
| Outpatient Hospital Visits (ER)     | 99,911                  | 19,982                         | 99,911  | 119,893 | 1995 | 3. American Hospital Association, Hospital Statistics, 1996-1997 Edition                              | Volume of medical disclosures assumes 40% of ER patients have own physician of choice. Of those, 50% will result in disclosure from ER to physician.                                                                                                                                    |
| Inpatient Admissions - Hospital     | 33,282                  | 133,128                        | 33,282  | 166,410 | 1995 | 3. American Hospital Association, Hospital Statistics, 1996-1997 Edition                              | Volume of medical disclosures estimated at 4 per admission due to multi-day stays.                                                                                                                                                                                                      |
| Outpatient Surgery Centers          | 4,900                   | 9,800                          | 9,800   | 19,600  | 1995 | 4. Source Book of Health Insurance Data, Health Insurance Association of America (HIAA), 1997-1998    | Volume of medical disclosure assumes (1) referral to Surgery Center from physician and (2) report from Surgery Center back to physician. Volume of admin. disclosure assumes one professional, one facility claim.                                                                      |
| Nursing Home Admissions             | 5,138                   | 61,656                         | -       | 61,656  | 1996 | 2. United States National Center for Health Statistics, National Health Interview Survey, 1996 - 1997 | Volume of medical disclosures based on, at minimum, monthly reports to and/or from Medical Director. No volume included for admin. disclosures due to high incidence of self-payment.                                                                                                   |
| Home Health Care                    | 2,427                   | 7,281                          | 2,427   | 9,708   | 1996 | 5. United States National Center for Health Statistics, National Home and Hospice Care Survey, 1998   | Encounter volume represents number of patients receiving Home Health care on a given day during survey period. Medical disclosure volume includes one referral from PCP/Specialist to Home Health Agency and minimum estimate of two reports from Home Health Agency to PCP/Specialist. |
| Hospice Care                        | 328                     | 656                            | 328     | 984     | 1994 | 4. Source Book of Health Insurance Data, Health Insurance Association of America (HIAA), 1997-1998    | Volume of encounters estimated based on number of discharges in sample year. Medical disclosure volume includes referral from and report to PCP/Specialist.                                                                                                                             |

**Pillar - Tracking and Disclosure**  
**Component - Encounter, Disclosure Volumes**

Exhibit B

| Encounter, Disclosure Volumes               |                         | All figures in thousands       |           |           | Year | Data Source                                                                                                                          | Notes                                                                                                                                                                                                                                   |
|---------------------------------------------|-------------------------|--------------------------------|-----------|-----------|------|--------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Encounter Category                          | Annual Encounter Volume | Est'd Annual Disclosure Volume |           |           |      |                                                                                                                                      |                                                                                                                                                                                                                                         |
|                                             |                         | Medical                        | Admin.    | Total     |      |                                                                                                                                      |                                                                                                                                                                                                                                         |
| Psychiatric Hospital Admissions             | 766                     | 2,298                          | 766       | 3,064     | 1995 | 3. American Hospital Association, Hospital Statistics, 1996-1997 Edition                                                             | Volume of medical disclosures based on (1) referral from physician to Psychiatric hospital, and (2) minimum of two reports from psychiatric hospital to physician.                                                                      |
| Chiropractic                                | 16,800                  | -                              | 2,520     | 2,520     |      | 6. Chiropractic in the United States: Training, Practice, and Research, Dec. 1997, AHCPR, Publication: 98 N002                       | Estimate based on 7% of population visited Chiropractor. Volumes not included in medical disclosure volumes due to high coincidence of self-referral, self-payment. Admin disclosure volume assumes 15% treatment covered by insurance. |
| Dental Visits                               | 145,920                 |                                | 72,960    | 72,960    | 1993 | 2. United States National Center for Health Statistics, National Health Interview Survey, 1996 - 1997                                | Encounter volume estimated based on 60.8% of population visited Dentist. Volume of admin. disclosures estimated at 50% for submission of dental claims to insurance companies.                                                          |
| Laboratory                                  | 247,680                 | 495,360                        | 247,680   | 743,040   |      | 7. MGMA - Cost Survey Report - 1998                                                                                                  | Encounter volume based on 64% of Physician visits result in lab work. There are multiple disclosures to such specialties as pathology and other specialists, thus a doubling of disclosure volume. (External labs only)                 |
| Radiology                                   | 65,321                  | 130,642                        | 65,321    | 195,963   |      | 7. MGMA - Cost Survey Report - 1998                                                                                                  | Encounter volume assumes 8.3% of physician visits result in radiology work. Does not include multiple disclosures that may occur from radiological interpretation from external Radiologist.                                            |
| Pharmacy                                    | 498,930                 | 498,930                        | 498,930   | 997,860   | 1996 | 8. U.S. Dept. of Health and Human Service, Public Health Service, Center for Disease Control and Prevention, Health Statistics, 1997 | Estimate based on physician visits where one or more pharmacological agents are ordered or provided.                                                                                                                                    |
| Total Encounter/ Disclosure Volume (Annual) | 1,985,768               | 2,032,490                      | 1,898,290 | 3,930,780 |      |                                                                                                                                      |                                                                                                                                                                                                                                         |

**Pillar - Tracking and Disclosures**  
**Component – Disclosure Tracking Costs**

| Disclosure Tracking                             |                                                                           |                                 |                            |                       |                     |                          |                                      |                                          |
|-------------------------------------------------|---------------------------------------------------------------------------|---------------------------------|----------------------------|-----------------------|---------------------|--------------------------|--------------------------------------|------------------------------------------|
| Disclosure Type                                 | Description                                                               | Ann'l Disclosure Volume (000's) | Time per Disclosure (min.) | Total Minutes (000's) | Total Hours (000's) | Avg Salary Cost per Hour | Total Ann'l Estimated Cost (\$000's) | Salary Assumptions                       |
| <b>Medical Disclosures</b>                      |                                                                           |                                 |                            |                       |                     |                          |                                      |                                          |
| PCP Referral                                    | PCP refers patient for specialized treatment                              | 259,386                         | 1.285                      | 333,311               | 5,555               | \$ 18.90                 | \$ 104,993                           | 1. Based on LPN rate.                    |
| Specialist Report                               | Specialist reports result of treatment to PCP                             | 259,386                         | 1.285                      | 333,311               | 5,555               | \$ 26.92                 | 149,546                              | 2. Based on RN rate.                     |
| Lab Request                                     | PCP/Specialist requests , clinical lab procedures                         | 247,680                         | 1.285                      | 318,269               | 5,304               | \$ 22.91                 | 121,526                              | 3. Based on blended rate between RN/LPN. |
| Lab Report                                      | Lab reports results to PCP/Specialist.                                    | 247,680                         | 1.285                      | 318,269               | 5,304               | \$ 18.32                 | 97,178                               | 4. Based on Medical tech rate.           |
| Radiology Request                               | PCP/Specialist requests radiology procedures                              | 65,321                          | 1.285                      | 83,937                | 1,399               | \$ 22.91                 | 32,050                               | 3. Based on blended rate between RN/LPN. |
| Radiology Report                                | Radiology facility reports results to PCP/Specialist                      | 65,321                          | 1.285                      | 83,937                | 1,399               | \$ 21.35                 | 29,868                               | 5. Based on X-Ray tech rate.             |
| Non-ER Outpatient Referral                      | PCP/Specialist refers patient to Outpatient facility for treatment        | 76,993                          | 1.285                      | 98,936                | 1,649               | \$ 22.91                 | 37,777                               | 3. Based on blended rate between RN/LPN. |
| Non-ER Outpatient Report                        | Outpatient facility sends treatment report to referring physician         | 76,993                          | 1.285                      | 98,936                | 1,649               | \$ 22.91                 | 37,777                               | 3. Based on blended rate between RN/LPN. |
| ER Visit                                        | ER sends report of treatment to PCP                                       | 19,982                          | 1.285                      | 25,677                | 428                 | \$ 16.76                 | 7,172                                | 6. Based on Medical Asst. rate.          |
| Non-Hospital Outpatient Surgery Center Referral | PCP/Specialist Refers Patient to Outpatient Surgery Center                | 4,900                           | 1.285                      | 6,297                 | 105                 | \$ 22.91                 | 2,404                                | 3. Based on blended rate between RN/LPN. |
| Non-Hospital Outpatient Surgery Center Report   | Surgery Center reports to PCP/Specialist                                  | 4,900                           | 1.285                      | 6,297                 | 105                 | \$ 22.91                 | 2,404                                | 3. Based on blended rate between RN/LPN. |
| Inpatient Admission                             | PCP/Specialist refers patient for Inpatient admission                     | 99,846                          | 1.285                      | 128,302               | 2,138               | \$ 22.91                 | 48,990                               | 3. Based on blended rate between RN/LPN. |
| Inpatient Report                                | Inpatient facility sends reports to PCP/Specialist                        | 33,282                          | 1.285                      | 42,767                | 713                 | \$ 22.91                 | 16,330                               | 3. Based on blended rate between RN/LPN. |
| Pharmacy Orders                                 | PCP/Specialist sends drug orders to pharmacy                              | 498,930                         | 1.285                      | 641,125               | 10,685              | \$ 22.91                 | 244,803                              | 3. Based on blended rate between RN/LPN. |
| Nursing Home Reports                            | Nursing Home Medical Director reviews patient reports on a monthly basis. | 61,656                          | 1.285                      | 79,228                | 1,320               | \$ 18.90                 | 24,957                               | 1. Based on LPN rate.                    |

| Disclosure Type                                   | Description                                                       | Ann'l Disclosure Volume (000's) <sup>1</sup> | Time per Disclosure (min.) | Total Minutes (000's) | Total Hours (000's) | Avg Salary Cost per Hour | Total Ann'l Estimated Cost (\$000's) | Salary Assumptions                                              |
|---------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------|----------------------------|-----------------------|---------------------|--------------------------|--------------------------------------|-----------------------------------------------------------------|
| Home Health Referral                              | PCP/Specialist refers patient for home health care                | 2,427                                        | 1.285                      | 3,119                 | 52                  | \$ 22.91                 | 1,191                                | 3. Based on blended rate between RN/LPN.                        |
| Home Health Report                                | Home Health agency reports treatment to PCP/Specialist            | 4,854                                        | 1.285                      | 6,237                 | 104                 | \$ 22.91                 | 2,382                                | 3. Based on blended rate between RN/LPN.                        |
| Hospice Referral                                  | PCP/Specialist refers patient for hospice care                    | 328                                          | 1.285                      | 421                   | 7                   | \$ 22.91                 | 161                                  | 3. Based on blended rate between RN/LPN.                        |
| Hospice Report                                    | Hospice agency reports treatment to PCP/Specialist                | 328                                          | 1.285                      | 421                   | 7                   | \$ 22.91                 | 161                                  | 3. Based on blended rate between RN/LPN.                        |
| Psychiatric Admission                             | PCP/Specialist refers patient for inpatient psychiatric treatment | 766                                          | 1.285                      | 984                   | 16                  | \$ 22.91                 | 376                                  | 3. Based on blended rate between RN/LPN.                        |
| Psychiatric Report                                | Psychiatric facility reports to PCP/Specialist                    | 1,532                                        | 1.285                      | 1,969                 | 33                  | \$ 18.90                 | 620                                  | 1. Based on LPN rate.                                           |
| <b>Medical Disclosures - TOTAL</b>                |                                                                   | <b>2,032,491</b>                             |                            |                       |                     |                          | <b>962,665</b>                       |                                                                 |
| <b>Administrative Disclosures - Total</b>         |                                                                   | <b>1,898,290</b>                             | <b>0.43</b>                | <b>816,265</b>        | <b>13,604</b>       | <b>\$ 17.24</b>          | <b>234,540</b>                       | <b>6. Blended rate for Customer Service Rep/Claims Analyst.</b> |
| <b>Total Disclosure Tracking Costs (Year 1)</b>   |                                                                   |                                              |                            |                       |                     |                          | <b>\$ 1,197,205</b>                  |                                                                 |
| <b>Total Disclosure Tracking Costs (Year 2-5)</b> |                                                                   |                                              |                            |                       |                     |                          | <b>5,028,262</b>                     |                                                                 |
| <b>Total - Disclosure Tracking Costs</b>          |                                                                   |                                              |                            |                       |                     |                          | <b>\$ 6,225,467</b>                  |                                                                 |

## Notes:

1. Refer to volume estimates in encounter, disclosure volume spreadsheet.
2. Salary costs based on data from Warren HMO Salary Survey, Spring, 1999 edition and Medical Group Management Association (MGMA) Cost Survey, 1998 report. Includes 20% load for benefits and 20% load for overhead costs.

# Pillar-Tracking and Disclosure Component-Scope of Disclosure

| Health Plans, Health Insurance Companies, Plan Administrators |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------|------------------------------------|-----------------|---------------|-----------|-----------------------------------------|---------------|----------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Work Flow Implication Worksheet                               |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Process steps                                                 | Est'd Transaction Vol <sup>1</sup> | Est'd Frequency | SUT (minutes) | Hours     | Cost per hour or unit cost <sup>2</sup> | Total         | Subsequent year cost | Five year cost  | Sources/Assumptions                                                                                                                                                                                                                                                                                                                                                                                  |
| 1. Set appointment                                            | 100,000                            | 100%            | 5             | 8,333     | \$17                                    | \$143,682     |                      |                 | 1. Volume assumes request rate of .04 percent of total insured population<br><br>2. Salary cost represents blended rate for a claims analyst/customer service representative. Based on data from Warren HMO Salary Survey, Spring, 1999 edition. Includes 20% load for benefits and 20% load for overhead costs                                                                                      |
| 2. Phone wait time                                            | 100,000                            | 100%            | 0             | -         | \$6                                     | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 3. Send form                                                  | 100,000                            | 100%            | 1             | 1,667     | \$17                                    | \$28,736      |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 4. Locate records                                             | 100,000                            | 75%             | 90            | 150,000   | \$17                                    | \$2,586,281   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 5. Review, redact and prepare                                 | 100,000                            | 75%             | 60            | 100,000   | \$17                                    | \$1,724,188   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 6. Refer to med/legal                                         | 20,000                             | 20%             | 30            | 10,000    | \$36                                    | \$360,000     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 7. Record redactions                                          | 3,750                              | 3.75%           | 3             | 188       | \$17                                    | \$3,233       |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 8. Verify ID                                                  | 75,000                             | 75%             | 1             | 1,250     | \$17                                    | \$21,552      |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 9. Review with member                                         | 75,000                             | 75%             | 15            | 18,750    | \$17                                    | \$323,285     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 10. Copy record                                               | 100,000                            | 50%             | 10            | 16,667    | \$17                                    | \$287,365     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 11. Record payment                                            | 100,000                            | 75%             | 0             | -         | \$17                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 12. Post payment                                              | 100,000                            | 75%             | 0             | -         | \$17                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Subtotal Health Plan Expense                                  |                                    |                 |               |           |                                         | \$5,478,322   | \$5,752,239          | \$28,487,277    |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Facility-based Providers                                      |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Work Flow Implication Worksheet                               |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Process steps                                                 | Est'd Transaction Vol <sup>1</sup> | Est'd Frequency | SUT (minutes) | Hours     | Cost per hour or unit cost <sup>2</sup> | Total         | Subsequent year cost | Five year cost  | Sources/Assumptions                                                                                                                                                                                                                                                                                                                                                                                  |
| 1. Set appointment                                            | -                                  | 10%             | 0             | -         | \$18                                    | \$0           |                      |                 | 1. Volume estimated based on phone survey of hospitals where record requests are tracked.<br><br>2. Salary cost represents blended rate for a claims analyst/customer service representative. Based on data from Warren HMO Salary Survey, Spring, 1999 edition. Includes 20% load for benefits and 20% load for overhead costs plus a load of 6%.                                                   |
| 2. Phone wait time                                            | -                                  | 10%             | 0             | -         | \$6                                     | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 3. Send form                                                  | -                                  | 10%             | 0             | -         | \$18                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 4. Locate record                                              | 37,125,000                         | 100%            | 0             | -         | \$18                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 5. Review, redact and prepare                                 | 28,875,000                         | 70%             | 15            | 7,218,750 | \$18                                    | \$130,688,024 |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 6. Refer to med/legal                                         | 4,331,250                          | 15%             | 20            | 1,443,750 | \$38                                    | \$54,573,750  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 7. Record redactions                                          | 1,443,750                          | 3.5%            | 3             | 72,188    | \$18                                    | \$1,306,880   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 8. Verify ID                                                  | 28,875,000                         | 70%             | 2             | 962,500   | \$18                                    | \$17,425,070  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 9. Review with member                                         | -                                  | 10%             | 15            | -         | \$18                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 10. Copy record <sup>3</sup>                                  | 1,443,750                          | 5%              | 4             | 96,250    | \$18                                    | \$1,742,507   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 11. Record payment                                            | -                                  | 100%            | 0             | -         | \$18                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 12. Post payment                                              | -                                  | 100%            | 0             | -         | \$18                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Subtotal Hospital/Facility Expense                            |                                    |                 |               |           |                                         | \$205,736,232 | \$216,023,043        | \$1,069,828,404 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Physician Practices and Other Providers                       |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Work Flow Implication Worksheet                               |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Process steps                                                 | Est'd Transaction Vol <sup>1</sup> | Est'd Frequency | SUT (minutes) | Hours     | Cost per hour or unit cost <sup>2</sup> | Total         | Subsequent year cost | Five year cost  | Sources/Assumptions                                                                                                                                                                                                                                                                                                                                                                                  |
| 1. Set appointment                                            | -                                  | 100%            | 0             | -         | \$16                                    | \$0           |                      |                 | 1. Volume estimate based on interviews with clinics and records copying services. Represents less than 10% of total number of estimated disclosures.<br><br>2. Salary cost represents blended rate for a claims analyst/customer service representative. Based on data from Warren HMO Salary Survey, Spring, 1999 edition. Includes 20% load for benefits and 20% load for overhead costs minus 6%. |
| 2. Phone wait time                                            | -                                  | 100%            | 0             | -         | \$8                                     | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 3. Send form                                                  | 0                                  | 100%            | 0             | -         | \$16                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 4. Locate record                                              | 207,000,000                        | 100%            | 0             | -         | \$16                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 5. Validate ID/Authorization                                  | 186,300,000                        | 100%            | 1             | 3,105,000 | \$16                                    | \$49,680,000  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 6. Review, redact, prepare                                    | 186,300,000                        | 90%             | 15            | 4,657,500 | \$16                                    | \$74,520,000  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 7. Refer to med/legal                                         | 18,630,000                         | 10%             | 2             | 621,000   | \$36                                    | \$22,356,000  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 8. Record redactions                                          | 5,589,000                          | 3.0%            | 1             | 93,150    | \$16                                    | \$1,490,400   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 9. Review with member                                         | 0                                  | 10%             | 5             | -         | \$16                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 10. Copy record                                               | 0                                  | 5%              | 2             | -         | \$16                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 11. Record payment                                            | 0                                  | 100%            | 0             | -         | \$16                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| 12. Post payment                                              | 0                                  | 100%            | 0             | -         | \$16                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Subtotal Physician Expense                                    |                                    |                 |               |           |                                         | \$148,046,400 | \$155,448,720        | \$769,841,280   |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Subtotal Expense Scope of Disclosure                          |                                    |                 |               |           |                                         | \$359,280,954 | \$377,224,062        | \$1,868,156,961 |                                                                                                                                                                                                                                                                                                                                                                                                      |

## Pillar--Tracking and Disclosure

### Component--Develop Tracking DataBase for Disclosures in Small Organizations

|                      |                          |         |                                            |
|----------------------|--------------------------|---------|--------------------------------------------|
| Hardware             | PC                       | \$1,250 | Interview with IT Executive (Mid-range PC) |
| Software/Application | (Cost calculation below) | \$1,875 |                                            |

|                        |      |            |
|------------------------|------|------------|
| % needing software     | 100% | Assumption |
| % needing new hardware | 30%  | Assumption |

|                    |               |               |
|--------------------|---------------|---------------|
| # of organizations | 448,662       | From IPO data |
| Hardware           | \$168,248,250 | Calculation   |
| Software           | \$841,016,919 | Calculation   |

|                                     |               |
|-------------------------------------|---------------|
| Total implementation cost--one time | 1,009,265,169 |
|-------------------------------------|---------------|

|                                           | %   | Cost calculation | Hours | Cost/Hr | Total  |
|-------------------------------------------|-----|------------------|-------|---------|--------|
| Percent purchasing pre-packaged software  | 50% | \$249            |       |         |        |
| Percent developing system with consultant | 30% | \$4,500          | 40    | 100     | 4000 * |
| Percent using existing staff and software | 20% | \$2,000          | 80    | 25      | 2000   |
| <b>Composite cost</b>                     |     | <b>\$1,875</b>   |       |         |        |

\* Includes purchase of \$500 in proprietary software

**Pillar--Inspection, Copying and Amendment  
Component--Inspection and Copying**

| Health Plans, Health Insurance Companies, Plan Administrators |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------|------------------------------------|-----------------|---------------|-----------|-----------------------------------------|---------------|----------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Work Flow Implication Worksheet                               |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Process steps                                                 | Est'd Transaction Vol <sup>1</sup> | Est'd Frequency | SUT (minutes) | Hours     | Cost per hour or unit cost <sup>2</sup> | Total         | Subsequent year cost | Five year cost  | Sources/Assumptions                                                                                                                                                                                                                                                                                                                                                                |
| 1. Set appointment                                            | 1,200,000                          | 100%            | 5             | 100,000   | \$17                                    | \$1,724,188   |                      |                 | 1. Volume assumes request rate of 0.5% of 240 million records = 1,200,000 requests/year.<br>2. Salary cost represents blended rate for a claims analyst/customer service representative. Based on data from Warren HMO Salary Survey, Spring, 1999 edition. Includes 20% load for benefits and 20% load for overhead costs.<br>3. Include only additional copying not done today.  |
| 2. Phone wait time                                            | 1,200,000                          | 100%            | 0             | -         | \$6                                     | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 3. Send form                                                  | 1,200,000                          | 100%            | 1             | 20,000    | \$17                                    | \$344,838     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 4. Locate records                                             | 900,000                            | 75%             | 90            | 1,350,000 | \$17                                    | \$23,276,531  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 5. Review, redact and prepare                                 | 900,000                            | 75%             | 60            | 900,000   | \$17                                    | \$15,517,688  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 6. Refer to med/legal                                         | 180,000                            | 20%             | 30            | 90,000    | \$36                                    | \$3,240,000   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 7. Record redactions                                          | 33,750                             | 3.75%           | 3             | 2,250     | \$17                                    | \$38,794      |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 8. Verify ID                                                  | 900,000                            | 75%             | 1             | 15,000    | \$17                                    | \$258,628     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 9. Review with member                                         | 900,000                            | 75%             | 15            | 225,000   | \$17                                    | \$3,879,422   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 10. Copy record <sup>3</sup>                                  | 450,000                            | 50%             | 10            | 225,000   | \$17                                    | \$3,879,422   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 11. Record payment                                            | 900,000                            | 75%             | 0             | -         | \$17                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 12. Post payment                                              | 900,000                            | 75%             | 0             | -         | \$17                                    | \$0           |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Subtotal Health Plan Expense                                  |                                    |                 |               |           |                                         | \$52,159,510  | \$54,787,485         | \$ 271,229,461  |                                                                                                                                                                                                                                                                                                                                                                                    |
| Facility-based Providers                                      |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Work Flow Implication Worksheet                               |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Process steps                                                 | Est'd Transaction Vol <sup>1</sup> | Est'd Frequency | SUT (minutes) | Hours     | Cost per hour or unit cost <sup>2</sup> | Total         | Subsequent year cost | Five year cost  | Sources/Assumptions                                                                                                                                                                                                                                                                                                                                                                |
| 1. Set appointment                                            | 3,000,000                          | 100%            | 3             | 150,000   | \$18                                    | \$2,715,595   |                      |                 | 1. Volume estimated based on phone survey of hospitals where record requests are tracked and increase in requests of 1.25%.<br>2. Salary cost represents blended rate for a claims analyst/customer service representative. Based on data from Warren HMO Salary Survey, Spring, 1999 edition. Includes 20% load for benefits and 20% load for overhead costs plus a factor of 6%. |
| 2. Phone wait time                                            | 3,000,000                          | 100%            | 1             | 50,000    | \$6                                     | \$300,000     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 3. Send form                                                  | 3,000,000                          | 100%            | 0.15          | 7,500     | \$18                                    | \$135,780     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 4. Locate record                                              | 3,000,000                          | 100%            | 15            | 750,000   | \$18                                    | \$13,577,977  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 5. Review, redact and prepare                                 | 7,125,000                          | 100%            | 15            | 1,781,250 | \$18                                    | \$32,247,694  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 6. Refer to med/legal                                         | 1,068,750                          | 15%             | 20            | 356,250   | \$38                                    | \$13,466,250  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 7. Record redactions                                          | 249,375                            | 3.5%            | 3             | 12,469    | \$18                                    | \$225,734     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 8. Verify ID                                                  | 7,125,000                          | 100%            | 2             | 237,500   | \$18                                    | \$4,299,693   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 9. Review with member                                         | 4,125,000                          | 10%             | 15            | 1,031,250 | \$18                                    | \$18,569,718  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 10. Copy record AB                                            | 3,000,000                          | 5%              | 4             | 200,000   | \$18                                    | \$3,620,794   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 11. Record payment                                            | 3,000,000                          | 100%            | 0.25          | 12,500    | \$18                                    | \$226,300     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 12. Post payment                                              | 3,000,000                          | 100%            | 0.25          | 12,500    | \$18                                    | \$226,300     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Subtotal Hospital/Facility Expense                            |                                    |                 |               |           |                                         | \$89,711,833  | \$94,187,425         | \$486,501,632   |                                                                                                                                                                                                                                                                                                                                                                                    |
| Physician Practices and Other Providers                       |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Work Flow Implication Worksheet                               |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Process steps                                                 | Est'd Transaction Vol <sup>1</sup> | Est'd Frequency | SUT (minutes) | Hours     | Cost per hour or unit cost <sup>2</sup> | Total         | Subsequent year cost | Five year cost  | Sources/Assumptions                                                                                                                                                                                                                                                                                                                                                                |
| 1. Set appointment                                            | 4,800,000                          | 100%            | 2.5           | 200,000   | \$16                                    | \$3,264,800   |                      |                 | 1. Volume estimate based on interviews with clinics and records copying services. Represents less than 10% of total number of estimated disclosures and a volume increase of 2% of insured population.<br>2. Salary costs taken from Warren Survey 1999 minus a factor of 6%.                                                                                                      |
| 2. Phone wait time                                            | 4,800,000                          | 100%            | 0.15          | 12,000    | \$6                                     | \$72,000      |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 3. Send form                                                  | 4,800,000                          | 100%            | 0.15          | 12,000    | \$16                                    | \$192,000     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 4. Locate record                                              | 4,800,000                          | 90%             | 10            | 800,000   | \$16                                    | \$12,800,000  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 5. Validate ID/Authorization                                  | 27,800,000                         | 90%             | 1             | 463,333   | \$16                                    | \$7,413,333   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 6. Review, redact, prepare                                    | 27,800,000                         | 90%             | 1.5           | 695,000   | \$16                                    | \$11,120,000  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 7. Refer to med/legal                                         | 2,780,000                          | 10%             | 2             | 92,667    | \$36                                    | \$3,336,000   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 8. Record redactions                                          | 834,000                            | 3%              | 1             | 13,900    | \$16                                    | \$222,400     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 9. Review with member                                         | 23,000,000                         | 10%             | 5             | 1,916,667 | \$16                                    | \$30,666,667  |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 10. Copy record                                               | 4,800,000                          | 5%              | 2             | 160,000   | \$16                                    | \$2,560,000   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 11. Record payment                                            | 27,800,000                         | 100%            | 0.25          | 115,833   | \$16                                    | \$1,853,333   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 12. Post payment                                              | 27,800,000                         | 100%            | 0.25          | 115,833   | \$16                                    | \$1,853,333   |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Subtotal Physician Expense                                    |                                    |                 |               |           |                                         | \$75,353,867  | \$78,121,660         | \$391,840,107   |                                                                                                                                                                                                                                                                                                                                                                                    |
| Subtotal Expense/Inspection, Copying and Amendment            |                                    |                 |               |           |                                         | \$217,225,210 | \$228,098,470        | \$1,129,671,090 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Miscellaneous costs                                           |                                    |                 |               |           |                                         |               |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
|                                                               | Volume                             |                 |               |           | Cost                                    | Total         | Subsequent year      | Five year cost  |                                                                                                                                                                                                                                                                                                                                                                                    |
| 1. Creation and printing                                      | 3,000,000                          |                 |               |           | 0.1                                     | \$300,000     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| 2. Postage for mailing form                                   | 3,000,000                          |                 |               |           | 0.33                                    | \$990,000     |                      |                 |                                                                                                                                                                                                                                                                                                                                                                                    |
| Subtotal Expense/Creation and Mailing                         |                                    |                 |               |           |                                         | \$1,290,000   | \$1,354,600          | \$8,708,000     |                                                                                                                                                                                                                                                                                                                                                                                    |
| Total Inspection, Copying and Amendment                       |                                    |                 |               |           |                                         | \$218,515,210 | \$229,440,970        | \$1,138,279,090 |                                                                                                                                                                                                                                                                                                                                                                                    |

**Pillar--Inspection, Copying and Amendment**  
**Component--Amend medical information**

| Activity                                                                                            |  |  |  | Freq | SUT (Min) | Cost/Min               | Cost/request | Assumptions                                |
|-----------------------------------------------------------------------------------------------------|--|--|--|------|-----------|------------------------|--------------|--------------------------------------------|
| Take call from member/patient and                                                                   |  |  |  | 100% | 0         | 0.29                   | 0.0          | Use \$17.24/hour for all but legal/medical |
| Discuss amendment                                                                                   |  |  |  | 100% | 8         | 0.29                   | 2.3          |                                            |
| Send verification/request form                                                                      |  |  |  | 80%  | 2         | 0.29                   | 0.5          |                                            |
| Take second call from member/patient                                                                |  |  |  | 40%  | 10        | 0.29                   | 1.1          |                                            |
| Receive verification/request form                                                                   |  |  |  | 80%  | 0.25      | 0.29                   | 0.1          |                                            |
| Review request                                                                                      |  |  |  | 80%  | 10        | 0.29                   | 2.3          |                                            |
| Research issue                                                                                      |  |  |  | 80%  |           | 0.29                   | 0.0          |                                            |
|                                                                                                     |  |  |  | E    | 40%       | 60                     | 0.29         | E=Easy<br>H=Hard                           |
|                                                                                                     |  |  |  | H    | 40%       | 180                    | 0.29         |                                            |
| Request records                                                                                     |  |  |  | 56%  | 30        | 0.29                   | 4.8          | \$82/hour<br>\$70/hour                     |
| Review records                                                                                      |  |  |  | 56%  | 90        | 0.29                   | 14.5         |                                            |
| Refer records                                                                                       |  |  |  | 28%  | 5         | 0.29                   | 0.4          |                                            |
| Legal review                                                                                        |  |  |  | 28%  | 90        | 1.37                   | 34.4         |                                            |
| Medical review                                                                                      |  |  |  | 28%  | 60        | 1.17                   | 19.6         |                                            |
| Develop response to request                                                                         |  |  |  | 80%  | 30        | 0.29                   | 6.9          |                                            |
| Take third call from member/patient                                                                 |  |  |  | 20%  | 15        | 0.29                   | 0.9          |                                            |
| Send final notice                                                                                   |  |  |  | 80%  | 5         | 0.29                   | 1.1          |                                            |
| Enter change/denial                                                                                 |  |  |  | 80%  | 1         | 0.29                   | 0.2          |                                            |
| Average cost per amendment request                                                                  |  |  |  |      |           |                        | \$116.74     |                                            |
| <b>Appeal amendment decision</b>                                                                    |  |  |  |      |           |                        |              |                                            |
| Activity                                                                                            |  |  |  | Freq | SUT (Min) | Cost/Min               | Cost/request |                                            |
| Receive appeal from member patient                                                                  |  |  |  | 20%  | 5         | 0.29                   | 0.3          |                                            |
| Take call from member/patient                                                                       |  |  |  | 20%  | 2         | 0.29                   | 0.1          |                                            |
| Discuss decision                                                                                    |  |  |  | 20%  | 30        | 0.29                   | 1.7          |                                            |
| Send form for filing appeal                                                                         |  |  |  | 20%  | 1         | 0.29                   | 0.1          |                                            |
| Receive appeal form                                                                                 |  |  |  | 17%  | 0.5       | 0.29                   | 0.0          |                                            |
| Review appeal form                                                                                  |  |  |  | 17%  | 60        | 0.29                   | 2.9          |                                            |
| Refer form for review                                                                               |  |  |  | 17%  | 5         | 0.29                   | 0.2          |                                            |
| Legal                                                                                               |  |  |  | 17%  | 90        | 1.37                   | 20.9         |                                            |
| Medical                                                                                             |  |  |  | 17%  | 30        | 1.17                   | 6.0          |                                            |
| Develop response to appeal                                                                          |  |  |  | 17%  | 60        | 0.29                   | 2.9          |                                            |
| Send final notice                                                                                   |  |  |  | 17%  | 2         | 0.29                   | 0.1          |                                            |
| Process phone call from member                                                                      |  |  |  | 15%  | 30        | 0.29                   | 1.3          |                                            |
| Average cost per appeal                                                                             |  |  |  |      |           |                        | \$36.56      |                                            |
| <b>Summary Recap</b>                                                                                |  |  |  |      |           |                        |              |                                            |
| <b>Amendment volume One year cost</b>                                                               |  |  |  |      |           |                        |              |                                            |
| 3,600,000 \$ 420,250,080 Assume 1% of total U.S. population (Calculation is volume times unit cost) |  |  |  |      |           |                        |              |                                            |
| Five year \$ 2,101,250,400                                                                          |  |  |  |      |           |                        |              |                                            |
| <b>Appeal volume One year cost</b>                                                                  |  |  |  |      |           |                        |              |                                            |
| 720000 \$ 26,326,572 20% of total amending (Calculation is volume times unit cost)                  |  |  |  |      |           |                        |              |                                            |
| Five year \$ 131,632,860 First year                                                                 |  |  |  |      |           |                        |              |                                            |
| <b>Total--Amend Information</b>                                                                     |  |  |  |      |           | <b>\$2,232,883,260</b> |              |                                            |

**Pillar--Inspection, Copying and Amendment**  
**Component--Posting Expense**

| Work Flow Implication Worksheet      |           |                    |                            |       |             |                                   |                |
|--------------------------------------|-----------|--------------------|----------------------------|-------|-------------|-----------------------------------|----------------|
| Entity Type                          | Volume    | Hours <sup>1</sup> | Cost/hour<br>or location * | Total |             |                                   |                |
| 1. Nbr employers w/ more than 2 emps | 3,233,000 | 2                  | \$60                       | \$    | 387,960,000 |                                   |                |
| 2. Nbr business locations in U.S.    | 6,276,800 |                    | \$25                       | \$    | 156,920,000 | Subsequent year cost <sup>1</sup> | Five year cost |
| Total posting expense                |           |                    |                            | \$    | 544,880,000 | \$27,244,000                      | \$653,856,000  |

CDC, National Center for Health Statistics, National  
Employer Health Insurance Survey

1. Assumes 5% turnover in number of locations.

\* Includes legal review

Pillar—Infrastructure

Component—Information Protection Officer Implementation

Exhibit G

|                                                                           |                  | Large or complex |                                              | Mid-sized |                 | Small    |                  | Total            | Sources/Assumptions                                                                                                                                                                                                   |
|---------------------------------------------------------------------------|------------------|------------------|----------------------------------------------|-----------|-----------------|----------|------------------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1st year cost/implementation                                              |                  | \$118,048        |                                              | \$89,014  |                 | \$2,642  |                  |                  |                                                                                                                                                                                                                       |
| On-going cost years 2-5                                                   |                  | \$88,538         |                                              | \$53,406  |                 | \$2,142  |                  |                  |                                                                                                                                                                                                                       |
| Category of Organization                                                  |                  |                  |                                              |           |                 |          |                  |                  |                                                                                                                                                                                                                       |
| Hospitals/Health Systems                                                  |                  | 609              | \$71,891,232                                 | 2767      | \$246,301,048   | 2915     | \$7,700,883      | \$325,893,162    | AMA Hospital Statistics, 1995                                                                                                                                                                                         |
| Health Plans                                                              |                  | 84               | \$9,916,032                                  | 98        | \$8,545,320     | 480      | \$1,288,070      | \$19,729,422     | Interstudy 1998                                                                                                                                                                                                       |
| Insurance Companies                                                       |                  | 355              | \$41,907,040                                 | 354       | \$31,510,868    | 4224     | \$11,159,018     | \$84,578,924     | A.M. Best Key Rating Guide, 1994-1998 Annual Data vol. 89                                                                                                                                                             |
| Insurance Agents                                                          |                  |                  |                                              |           |                 | 62700    | \$185,841,844    | \$185,841,844    | Assumption: 50% of all insurance agents selling health, life, disability                                                                                                                                              |
| Provider Organizations                                                    |                  | 200              | \$23,609,800                                 | 240       | \$21,363,300    | 19,580   | \$51,673,853     | \$98,646,753     | MGMA.com/library/faq                                                                                                                                                                                                  |
| Independent Physicians (solo and two)                                     |                  |                  | \$0                                          |           | \$0             | 145,000  | \$383,062,813    | \$383,062,813    | AMA Physician Characteristics and Distribution in the U.S. 1998 Edition                                                                                                                                               |
| PBMs                                                                      |                  | 12               | \$1,416,578                                  |           | \$0             | 67       | \$177,001        | \$1,593,577      | 1998 Directory of Health Care Management Companies                                                                                                                                                                    |
| Medical Schools                                                           |                  |                  | \$0                                          | 125       | \$11,128,719    |          | \$0              | \$11,128,719     | Physician Characteristics and Distribution in the US, 1999, AMA                                                                                                                                                       |
| Dentists                                                                  |                  |                  | \$0                                          |           | \$0             | 138,000  | \$364,570,125    | \$364,570,125    | U.S. Census Bureau, Statistical Abstract of the United States: 1998                                                                                                                                                   |
| Pharmacies                                                                |                  |                  | \$0                                          |           | \$0             | 51,000   | \$134,732,438    | \$134,732,438    | U.S. Census Bureau, Statistical Abstract of the United States: 1998                                                                                                                                                   |
| Pharmaceutical Companies                                                  |                  | 110              | \$12,985,280                                 |           | \$0             |          | \$0              | \$12,985,280     | Hoover's Business Directory                                                                                                                                                                                           |
| Substance Abuse Facilities                                                |                  |                  | \$0                                          | 479       | \$42,637,588    | 9,109    | \$24,064,270     | \$66,701,858     | U.S. Substance Abuse & Mental Health Servs Adm.                                                                                                                                                                       |
| Nursing Homes                                                             |                  | 0                | \$0                                          | 1300      | \$115,717,875   | 15400    | \$40,683,913     | \$156,401,788    | U.S. Census Bureau, Statistical Abstract of the United States: 1998                                                                                                                                                   |
| Mental Health Facilities                                                  |                  |                  | \$0                                          | 250       | \$22,253,438    | 3530     | \$9,325,598      | \$31,579,036     | U.S. Census Bureau, Statistical Abstract of the United States: 1998                                                                                                                                                   |
| Home Health Companies                                                     |                  |                  | \$0                                          |           | \$0             | 12900    | \$34,079,381     | \$34,079,381     | U.S. Bureau of Census, County Business Patterns, annual                                                                                                                                                               |
| UROs                                                                      |                  | 4                | \$472,192                                    | 8         | \$712,110       | 88       | \$232,480        | \$1,416,782      | AAHP Profile of Health Plans and UROs 1997-98                                                                                                                                                                         |
| Outpatient Surgery Centers                                                |                  |                  |                                              |           |                 | 1,700    | \$4,491,081      | \$4,491,081      | National Center for Health Statistics, Advance Data 1997                                                                                                                                                              |
| Diagnostic Laboratories                                                   |                  |                  | \$0                                          |           | \$0             | 8,800    | \$23,247,950     | \$23,247,950     | U.S. Bureau of Census, County Business Patterns, annual                                                                                                                                                               |
| Third Party Administrators                                                |                  |                  | \$0                                          |           | \$0             | 600      | \$1,585,088      | \$1,585,088      | Society of Professional Benefit Administrators                                                                                                                                                                        |
| Chiropractors                                                             |                  |                  |                                              |           |                 | 41,400   | \$109,371,038    | \$109,371,038    | U.S. Bureau of Census, County Business Patterns, annual                                                                                                                                                               |
| Government entities <sup>1</sup>                                          |                  | 51               | \$8,020,448                                  | 0         | \$0             | 0        | \$0              | \$8,020,448      | 1997 Census of Governments, Tables 406, 489                                                                                                                                                                           |
| Colleges <sup>2</sup>                                                     |                  | 722              | \$85,230,658                                 | 1404      | \$124,975,306   | 722      | \$1,907,389      | \$212,113,350    | U.S. National Center for Education Statistics, 1998, Table 307                                                                                                                                                        |
| Community Health Centers                                                  |                  |                  |                                              |           |                 | 2,337    | \$6,173,916      | \$6,173,916      | National Association of Community Health Centers                                                                                                                                                                      |
| Business—20+ Emps                                                         |                  | 581,535          |                                              |           |                 | 479,170  | \$1,285,877,298  | \$1,285,877,298  | Use all businesses with 20+ employees minus organizations included above *                                                                                                                                            |
| All other businesses                                                      |                  | 1,882,593        | Average compliance cost for these businesses |           | \$250           |          | \$415,848,250    | \$415,848,250    |                                                                                                                                                                                                                       |
| <sup>1</sup> Includes U.S. and state                                      | First year total | 2,147            | \$253,449,054                                | 7,023     | \$625,143,586   | \$99,702 | \$3,056,673,490  | \$3,835,266,112  | <sup>2</sup> Assume minimal compliance activities at companies based on training and other activities for questions that arise on claim payments or other health related transactions; benefits and HR staff involved |
| <sup>2</sup> Represents 78% of institutions (excludes private enrollment) | Subsequent year  |                  | \$190,086,792                                |           | \$378,086,140   |          | \$2,566,822,490  | \$3,121,996,422  |                                                                                                                                                                                                                       |
|                                                                           | Five year Total  |                  | \$1,013,796,224                              |           | \$2,126,468,125 |          | \$13,283,963,449 | \$16,423,247,799 |                                                                                                                                                                                                                       |

| Assumptions          |               |          |                                                                                  |
|----------------------|---------------|----------|----------------------------------------------------------------------------------|
| Large                | Salary        | \$87,458 | Compliance Officer, Warren Surveys, the HMO Salary Survey, Spring 1999           |
|                      | Benefits      | \$13,491 | 20% load                                                                         |
|                      | Other expense | \$13,491 | 20% overhead and expenses                                                        |
|                      | Total         | \$94,438 |                                                                                  |
| Mid-sized            | Salary        | \$50,865 | Legal Compliance Coordinator, Warren Surveys, the HMO Salary Survey, Spring 1999 |
|                      | Benefits      | \$10,173 | 20% load                                                                         |
|                      | Other expense | \$10,173 | 20% overhead and expenses                                                        |
|                      | Total         | \$71,211 |                                                                                  |
| Small                | Seminar       | \$500    | Includes any travel expenses, seminar fee, consulting or training                |
|                      | Salary        | \$34,269 | Administrative Assistant, Warren Surveys, the HMO Salary Survey, Spring 1999     |
|                      | Benefits      | \$3,427  | 10% load                                                                         |
|                      | Other expense | \$3,427  | 10% load                                                                         |
|                      | Total         | \$41,123 |                                                                                  |
| Assume 5.21% of time | Total 1st yr  | \$2,142  | 5% of salary                                                                     |
|                      | On-going      | \$2,142  | Based on duties assuming 25 minutes per day                                      |
|                      |               |          | Annual days                                                                      |
|                      |               |          | Time per day                                                                     |
|                      |               |          | Annual hours                                                                     |
|                      |               |          | % annual time                                                                    |
|                      |               |          | 260                                                                              |
|                      |               |          | 25                                                                               |
|                      |               |          | 108                                                                              |
|                      |               |          | 5%                                                                               |

**Pillar—Infrastructure**  
**Component—Training Expense**

Exhibit H

| Category of Organization *           | # Employees       | Assumed % Industry staff to be trained | # of Employees to be trained | Hours of training | Cost per hour | Subtotal 1st Year    | Number of Classes | Instructor Cost     | Materials Cost      | Total First Year     | Segment Turnover Rate | New Hire Costs      | Refresher Training   | Total Subsequent Year Cost | Total 5 Year Cost      |
|--------------------------------------|-------------------|----------------------------------------|------------------------------|-------------------|---------------|----------------------|-------------------|---------------------|---------------------|----------------------|-----------------------|---------------------|----------------------|----------------------------|------------------------|
| Offices and clinics of physicians    | 1,621,000         | 90%                                    | 1,458,900                    | 1.5               | \$40          | \$87,223,254         | 72,945            | \$8,206,313         | \$7,294,500         | \$102,724,067        | 4%                    | \$4,108,963         | \$20,544,813         | \$25,886,465               | \$208,269,926          |
| Offices and clinics of dentists      | 594,000           | 70%                                    | 415,800                      | 1                 | \$20          | \$8,481,488          | 20,780            | \$1,559,250         | \$2,079,000         | \$12,119,738         | 5%                    | \$605,987           | \$2,423,948          | \$3,181,431                | \$24,845,464           |
| Offices/clinics of other practioners | 315,000           | 90%                                    | 283,500                      | 2                 | \$18          | \$10,319,400         | 14,175            | \$2,126,250         | \$1,417,500         | \$13,863,150         | 7%                    | \$970,421           | \$2,772,630          | \$3,930,203                | \$29,583,962           |
| Nursing/personal care facilities     | 1,707,000         | 90%                                    | 1,536,300                    | 2                 | \$12          | \$38,069,514         | 76,815            | \$11,522,250        | \$7,681,500         | \$57,273,264         | 10%                   | \$5,727,326         | \$11,454,653         | \$18,041,078               | \$129,437,577          |
| Hospitals                            | 5,130,000         | 95%                                    | 4,873,500                    | 2                 | \$22          | \$215,740,098        | 243,675           | \$36,551,250        | \$24,367,500        | \$276,658,848        | 5%                    | \$13,832,942        | \$55,331,770         | \$72,622,948               | \$567,150,638          |
| Medical and dental labs              | 190,000           | 75%                                    | 142,500                      | 2                 | \$23          | \$6,423,900          | 7,125             | \$1,068,750         | \$712,500           | \$8,205,150          | 10%                   | \$820,515           | \$1,641,030          | \$2,584,622                | \$18,543,639           |
| Home Health Services                 | 680,000           | 75%                                    | 510,000                      | 2                 | \$13          | \$13,566,000         | 25,500            | \$3,825,000         | \$2,550,000         | \$19,941,000         | 5%                    | \$997,050           | \$3,988,200          | \$5,234,513                | \$40,879,050           |
| Insurance carriers***                | 1,416,000         | 85%                                    | 1,203,600                    | 1.5               | \$16          | \$29,319,696         | 60,180            | \$6,770,250         | \$6,018,000         | \$42,107,946         | 10%                   | \$4,210,795         | \$8,421,589          | \$13,264,003               | \$95,163,958           |
| HR Managers**** Large Entities       | 277,500           | 100%                                   | 277,500                      | 2                 | \$46          | \$25,775,481         | 13,875            | \$2,081,250         | \$1,387,500         | \$29,244,231         | 10%                   | \$2,924,423         | \$5,848,846          | \$9,211,933                | \$66,091,962           |
| Benefits reps/ Other staff *****     | 3,233,000         | 100%                                   | 3,233,000                    | 1                 | \$24          | \$76,162,019         | 161,650           | \$12,123,750        | \$16,165,000        | \$104,450,769        | 10%                   | \$10,445,077        | \$20,890,154         | \$32,901,992               | \$236,058,738          |
| <b>Total</b>                         | <b>15,161,500</b> |                                        | <b>13,244,800</b>            |                   |               | <b>\$511,000,000</b> |                   | <b>\$75,551,250</b> | <b>\$50,872,000</b> | <b>\$637,423,250</b> |                       | <b>\$44,851,488</b> | <b>\$135,317,833</b> | <b>\$180,355,122</b>       | <b>\$1,124,222,111</b> |

**Assumptions/Sources**

Average class size 20  
 Instructor cost/ hour \$75 Includes benefits and overhead  
 Materials / Attendee \*\* \$5  
 Refresher training % of initial t 0.2  
 Benefit load=20%; overhead load=20%

Training Solutions, Fort Wayne, IN

\* All Information is taken from the U.S. Census Bureau, County Business Patterns, annual/Tables 1283 and 782, unless otherwise specified

\*\* Includes development costs

\*\*\*Includes only life, medical service and health insurance and property/casualty

Warren Survey for salaries

\*\*\*\* U.S. Census Breau, the Official Statistics, Table No. 670; assume training 3 staff per employer

Warren

\*\*\*\*\* Total number of businesses and governments with more than 2 employees

Warren

# **Pillar--Infrastructure**

## **Component-Hospital System Modifications**

| Outsourced Systems                  |                    |                          | Locally Developed Systems   |                    |                         |                  |
|-------------------------------------|--------------------|--------------------------|-----------------------------|--------------------|-------------------------|------------------|
| Large vendors                       | 5                  |                          | Local Facilities            | 1,291 <sup>2</sup> |                         |                  |
| Cost/implementation                 | \$1,000,000        | \$5,000,000 <sup>1</sup> | Tasks                       |                    | Hours                   | Cost/hour        |
| Number of Hospitals                 | 5,000 <sup>2</sup> |                          | Design                      |                    | 3000                    | \$27             |
| <b>Cost of local implementation</b> |                    |                          | Programming hours           |                    | 1000                    | \$40             |
|                                     |                    |                          | Testing hours               |                    | 3000                    | \$13             |
|                                     |                    |                          | Revision hours              |                    | 500                     | \$40             |
|                                     |                    |                          | Overhead load               |                    |                         | 20%              |
|                                     |                    |                          | <b>Total expense/system</b> |                    | <b>7500<sup>3</sup></b> | <b>\$235,589</b> |
| Program/coordination hours          | 400                |                          |                             |                    |                         |                  |
| Testing hours                       | 200                |                          |                             |                    |                         |                  |
| Revision hours                      | 100                |                          |                             |                    |                         |                  |
| Total local implementation hours    | 700 <sup>4</sup>   |                          |                             |                    |                         |                  |
| Cost per hour (weighted average)    | \$37               |                          |                             |                    |                         |                  |
| With overhead                       | \$44               |                          |                             |                    |                         |                  |

|                            | Outsourced Systems   | Locally Developed    |
|----------------------------|----------------------|----------------------|
| <b>Total on-site costs</b> | <b>\$163,613,231</b> | <b>\$304,146,379</b> |

| Training                         |                    |                  |
|----------------------------------|--------------------|------------------|
| Average number to train/facility | 20                 | 10               |
| Average hourly expense           | \$22               | \$18             |
| <b>Total Training expense</b>    | <b>\$2,160,000</b> | <b>\$232,380</b> |

|                           |                      |                      |
|---------------------------|----------------------|----------------------|
| <b>Total System Costs</b> | <b>\$165,673,231</b> | <b>\$304,377,769</b> |
|---------------------------|----------------------|----------------------|

|                                          |                      |
|------------------------------------------|----------------------|
| <b>Grand Total Hospital System Costs</b> | <b>\$460,050,990</b> |
|------------------------------------------|----------------------|

| Sources/Assumptions                                                                    |
|----------------------------------------------------------------------------------------|
| <sup>1</sup> From Nolan phone survey, summer 1999                                      |
| <sup>2</sup> AHA Hospital Statistics, 1996-97                                          |
| <sup>3</sup> 2 programmers/analysts for one year plus testing personnel                |
| <sup>4</sup> Estimate 1 programmer for 3 months to develop interfaces to other systems |

| Salary Statistics                                                                                                                           | Benefits   | Total     |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------|
| Systems analyst <sup>5</sup>                                                                                                                | 46,582 20% | \$ 55,898 |
|                                                                                                                                             | Hourly     | 27        |
| Programmer <sup>6</sup>                                                                                                                     | 70,000 20% | \$84,000  |
|                                                                                                                                             | Hourly     | \$40      |
| Claims Analysts <sup>5</sup>                                                                                                                | 25,442 20% | \$ 26,804 |
|                                                                                                                                             | Hourly     | 13        |
| <sup>5</sup> Warren Surveys 1999                                                                                                            |            |           |
| <sup>6</sup> National Information Technology Salary Survey ( <a href="http://www.jdresources.com/salary/">www.jdresources.com/salary/</a> ) |            |           |

**Pillar—Infrastructure**  
**Component—Compliance Costs**

| Affected party                                  | Issue—Contract Review                              | Volumes              | Sources/Assumptions                                                                   |
|-------------------------------------------------|----------------------------------------------------|----------------------|---------------------------------------------------------------------------------------|
| Plan and Self-Funded Employers                  | # of employer groups over 100 employees            | 91666                | CDC, National Center for Health Statistics, National Employer Health Insurance Survey |
|                                                 | Percent self-insuring                              | 0.64                 | Office of Advocacy, Small Business Administration, data from Commerce Department      |
|                                                 | # of contracts requiring review                    | 58668                | Calculation                                                                           |
|                                                 | Average legal time to review contract (both sides) | 8                    | Est. based on Interview (BCBSTN)                                                      |
|                                                 | Cost of time (per hour)                            | \$72                 | Warren Survey, Spring 1999 (loaded for overhead)                                      |
| <b>Total cost, self-funded contract review</b>  |                                                    | <b>\$28,343,816</b>  |                                                                                       |
| Plan                                            | # plans                                            | Total Contracts      |                                                                                       |
|                                                 | # of provider contract types/plan#                 | 2,031                | 101550                                                                                |
|                                                 | # of other contracts needing rev #                 | 2,031                | 101550                                                                                |
|                                                 | Average legal time to review co 2                  |                      |                                                                                       |
|                                                 | Cost of time                                       |                      |                                                                                       |
| <b>Total cost—plan</b>                          |                                                    | <b>\$29,246,400</b>  |                                                                                       |
| Other provider review                           | # contracts reviewed by other party                |                      |                                                                                       |
|                                                 | Physicians                                         | 10%                  | 1700000                                                                               |
|                                                 | Others                                             | 20%                  | 2500000                                                                               |
|                                                 | Average legal time to review contr                 | 2                    |                                                                                       |
|                                                 | Cost of time                                       | \$72                 |                                                                                       |
| <b>Total cost other party legal review</b>      |                                                    | <b>\$98,480,000</b>  |                                                                                       |
| Fully-insured Employers                         | Employer review of contracts                       |                      |                                                                                       |
|                                                 | # of employers of more than 50 employees           | 250,000              | U.S. Census Bureau, Statistical Abstract of the United States: 1998                   |
|                                                 | Percent reviewing contracts                        | 25%                  | BCBSTN estimate                                                                       |
|                                                 | Total                                              | 62,500               |                                                                                       |
|                                                 | Hours by legal review                              | 1                    | Estimate                                                                              |
|                                                 | Total hours                                        | 62,500               |                                                                                       |
| <b>Total fully-insured employer review cost</b> |                                                    | <b>\$4,500,000</b>   |                                                                                       |
| <b>Other expenses</b>                           |                                                    |                      |                                                                                       |
| Mailing expenses                                | Providers and other contracts                      | 8,400,000            |                                                                                       |
|                                                 | Employer                                           | 500,000              |                                                                                       |
|                                                 | Total                                              | 8,900,000            |                                                                                       |
|                                                 | Mailing costs per piece (with BRE)                 | 0.61                 | BRE=Business Reply Envelope                                                           |
| <b>Total postage</b>                            |                                                    | <b>\$5,429,000</b>   |                                                                                       |
| Filing expenses                                 | Plan/Provider/Employer                             | 8,800,000            |                                                                                       |
|                                                 | Filing, admin time/contract (in minutes)           | 5                    |                                                                                       |
|                                                 | Total hours                                        | 741,667              |                                                                                       |
|                                                 | Estimated Compensation/hour                        | 16                   | Warren Survey Spring 1999                                                             |
| <b>Total filing cost</b>                        |                                                    | <b>\$11,629,333</b>  |                                                                                       |
| <b>Grand Total Contract Review Expenses</b>     |                                                    | <b>\$172,628,549</b> |                                                                                       |

# *Report Summary: Cost of Common Confidentiality Proposals*

By: Robert E. Nolan Company, Inc.

October 19, 1999



**BlueCross BlueShield  
Association**

An Association of Independent  
Blue Cross and Blue Shield Plans

# *Overview of Presentation*

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- **Background**
- **Common Cost Components of Confidentiality**
- **Next Steps**

# *Background*

# *Background on Confidentiality Debate*

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- ☐ The 1996 Health Insurance Portability and Accountability Act (HIPAA) required Congress to pass confidentiality legislation by August 1999 or HHS would be authorized to issue regulations regarding confidentiality
  
- ☐ No Congressional Action to Date in 1999
  
- ☐ The Department of Health and Human Services(HHS) has been developing draft regulations and is expected to release those before the end of October.

# ***Rationale for Confidentiality Study***

---

Blue Cross Blue Shield Plans believe the confidentiality of private medical records is of the utmost importance. There is no question as to *if* patient medical records should be protected, only as to *how* those records should be protected.

However, Blue Cross and Blue Shield is concerned that current proposals to protect confidentiality -- while well-intentioned -- would have negative, unforeseen consequences. They would:

- ☐ threaten the quality of patient care, by limiting information exchange between providers and others
- ☐ create a paperwork nightmare for subscribers and providers, causing payment delays
- ☐ increase paperwork costs that result in an additional \$43 billion in spending by the health care system (over 5 years).

# *Project Overview*

---

## Objective and Scope of Report

- ☐ Demonstrate cost impact of common confidentiality provisions on key health care sectors
- ☐ The report does not model all provisions, or all sectors but does estimate impact of certain provisions on doctors, hospitals and health plans.

***Common Cost Components  
of Confidentiality Proposals***

# *Summary of Findings*

---

*Total Cost Impact of Confidentiality Proposals : \$43 billion (over 5 years)*

- This exceeds the budget for the following health initiatives:
  - Children’s Health Insurance Program = \$ 22 billion (5 year budget)
  - Medicare Prescription Drug Benefit = \$ 37 billion (CBO 5 year estimate)
  - Small Business Tax Credit for Low-wage Workers = \$ 4.4 bill (5 yr Joint Tax est.)
  - Accelerated 100% Deductibility for Self-Employed = \$ 3 bill (5 yr Joint Tax est.)

## ***Total Estimated Costs***

---

The total costs for federal confidentiality standards could exceed \$43 billion; doctors, hospitals and health plans would all be affected, as will patients.

|                     |                                         |                       |
|---------------------|-----------------------------------------|-----------------------|
| <b>Cost Impact:</b> | <b>Authorizations:</b>                  | <b>\$ 1.9 billion</b> |
|                     | <b>Inspection, copy and amendment :</b> | <b>\$ 4.0 billion</b> |
|                     | <b>Tracking and disclosure:</b>         | <b>\$ 9.1 billion</b> |
|                     | <b>Infrastructure</b>                   | <b>\$23.4 billion</b> |
|                     | <b>Medical Management</b>               | <b>\$ 4.4 billion</b> |
| <hr/>               |                                         |                       |
|                     | <b>Total</b>                            | <b>\$42.8 billion</b> |

## **Patient Privacy**

**Total \$42.8 billion  
(5 years)**

### **Authorization Standards**

**Total: \$1.94 billion**

### **Tracking and Disclosure**

**Total: \$9.1 billion**

### **Inspection, Copying And Amendment Standards**

**Total: \$4 billion**

### **Infrastructure Support (Systems, Compliance & Training)**

**Total: \$23.4 billion**

### **Impact on Medical Management**

**Total: \$4.4 billion**



Robert E. Nolan Company, Inc.

# *Authorizations*

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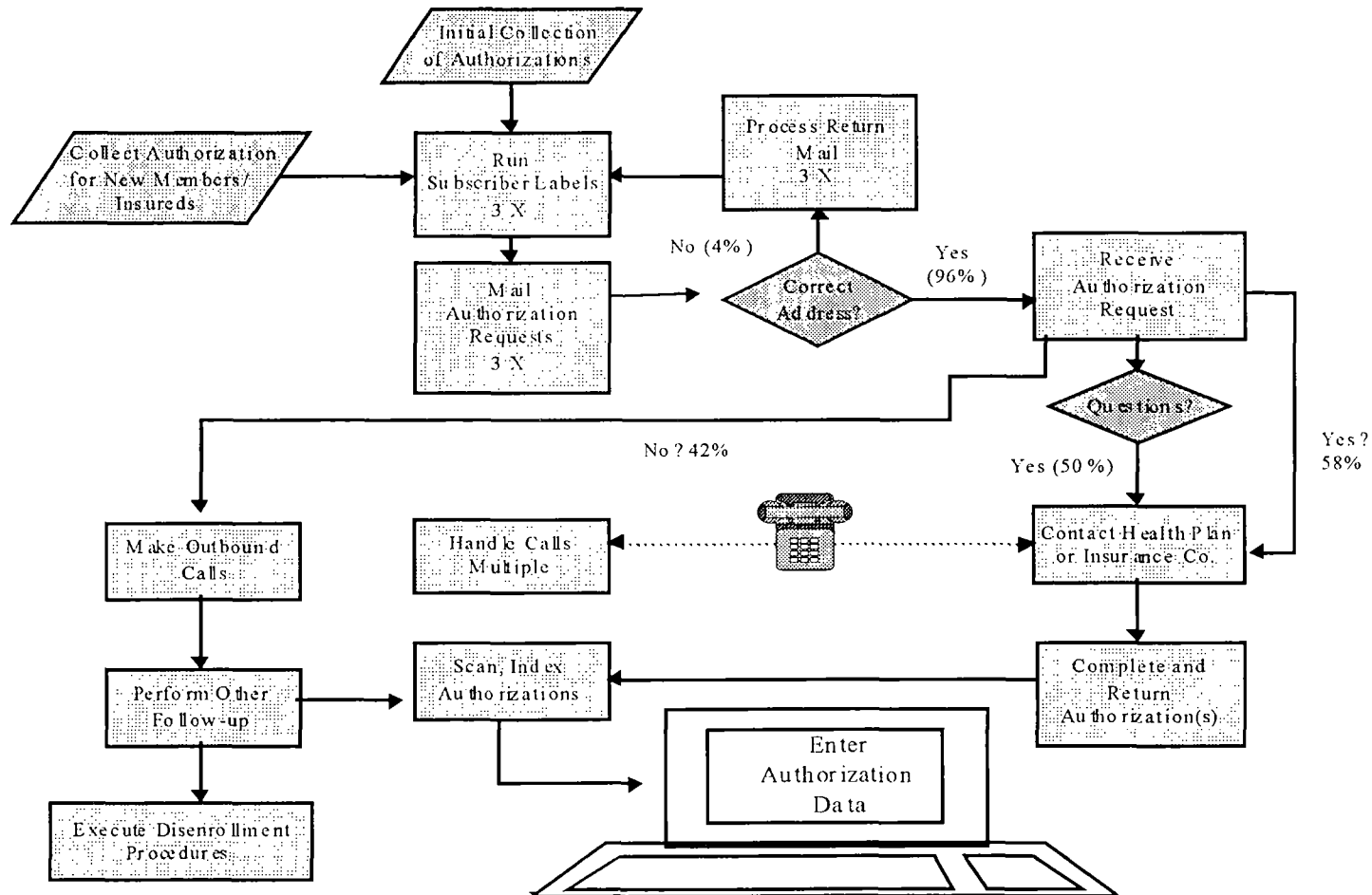
Providers, health plans and others must obtain an authorization in order to use or disclose customer data.

## **Ramifications:**

- Health plans, Medicare, and Medicaid would have to obtain new authorization forms from current as well as new subscribers.
- Without an authorization, plans could not pay claims or conduct operations.
- Obtaining authorizations from subscribers would be an expensive process -- akin to a collections process for unpaid bills -- multiple mailings and phone calls.
- Plans would have to reach those hospitalized, residing in nursing homes, and Medicaid enrollees that are homeless or lack telephones.

**Cost Impact: \$1.9 billion**

## Authorization Process Map (Health Plan)



# *Inspection, Copying and Amendment*

---

Patients/subscribers could inspect, copy and amend Protected Health Information (PHI) held by health plans, doctors, hospitals, etc. Protected Health Information is broadly defined, including any oral/written information identified by a name, SSN # or other identifying feature.

## **Ramifications:**

- This is a broader definition of protected health information than the traditional patient medical record
- This broad definition would sweep in information that is essentially meaningless to subscribers and patients, but that is difficult to retrieve (e.g. claims runs, provider profiles, customer service phone calls, e-mails, warehoused records)
- Computer records would require translation for subscribers from computer code

**Cost Impact: \$4.0 billion**

# *Tracking of Disclosures*

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Doctors, hospitals, health plans and others would have to track disclosures of PHI -- whether the disclosures occur through oral, electronic or paper submission. (There is only a narrow exemption for “agents.”)

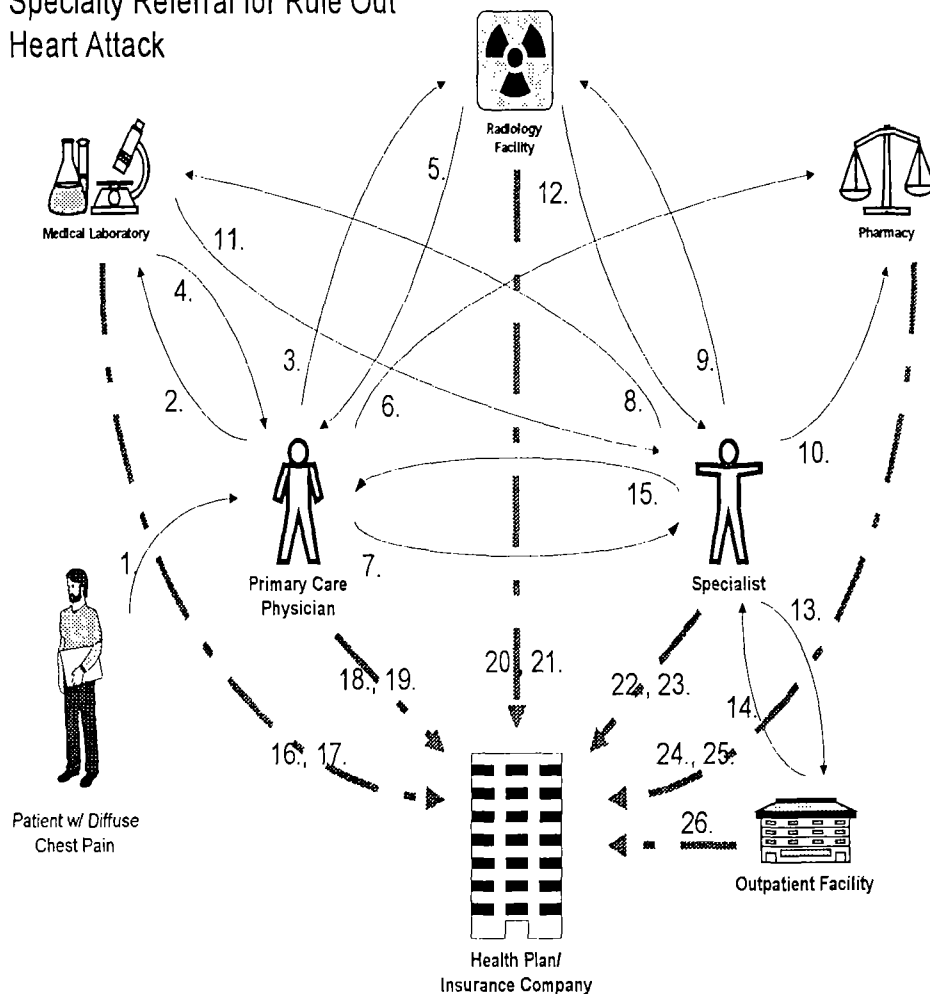
## **Ramifications:**

As a result, health plans, providers and others would need to track the vast majority of disclosures, including routine exchanges between:

- health plans and providers regarding eligibility
- hospitals and non-employee physicians with privileges
- labs and physicians
- hospitals and telephone inquiries regarding patient status (not modeled)

**Cost Impact: \$9.1 billion**

# Tracking/Disclosure Illustration Specialty Referral for Rule Out Heart Attack



## Medical Disclosures (Solid lines)

### PCP Visit

1. Patient presents to PCP with diffuse chest pain (no disclosure.)
2. PCP orders lab work (blood screening, enzymes, urinalysis.)
3. PCP orders chest x-ray.
4. Lab reports results of lab work to PCP.
5. Radiologist sends x-rays, interpretation to PCP.
6. PCP orders prescription.
7. PCP refers patient to Specialist.

### Specialist Visit

8. Specialist orders additional lab work (new blood enzyme, blood gas.)
9. Specialist orders additional radiology work (echocardiogram.)
10. Specialist orders additional prescription.
11. Lab reports back to Specialist.
12. Radiologist reports back to Specialist.
13. Specialist sends patient to Outpatient facility for Cardiac catheter analysis.
14. Outpatient facility sends report back to Specialist.
15. Specialist rules out MI, reports back to PCP.

## Administrative Disclosures (Dotted lines)

- 16., 17. Lab Claims
- 18., 19. PCP Claims
- 20., 21. Radiology Claims
- 22., 23. Specialist Claims
- 24., 25. Pharmacy Claims
- 26. Outpatient Facility Claim

# *Infrastructure Costs*

---

The previously described common components require health plans, providers, and others to conduct major systems changes, retraining of personnel and other compliance initiatives.

## **Ramifications:**

- These intricate standards would require extensive training for virtually all employees of health plans, hospitals, physician offices, laboratories, as well as other providers and other entities covered by the legislation.
- Legal and medical personnel will be forced to spend more time reviewing contracts, approving medical disclosures, and performing other administrative tasks.
- Resources spent on these activities will reduce investments in research and technologies that could improve quality and efficiency in the existing health care system.

**Cost Impact: \$23.4 billion**

# *Medical Management*

---

The bills limit disclosure of information to the minimum needed to accomplish the authorized task. In addition, some proposals would allow subscribers to tailor their authorization -- e.g. carve-out specific health care operations -- such as utilization review. Lack of authorization also could impede identification of potential fraud and abuse.

## **Ramifications:**

Health plans could be limited in their ability to conduct key health care operations such as :

- disease management;
- referral between physicians

□ Although other operations are at risk, only disease management and referral have been modeled at this time.

**Cost Impact: \$4.4 billion**