

Bucking the trend of rising health care costs



There's no simple solution to the problem of soaring health care costs. But we're creating innovative programs and tools that are helping to slow their growth.

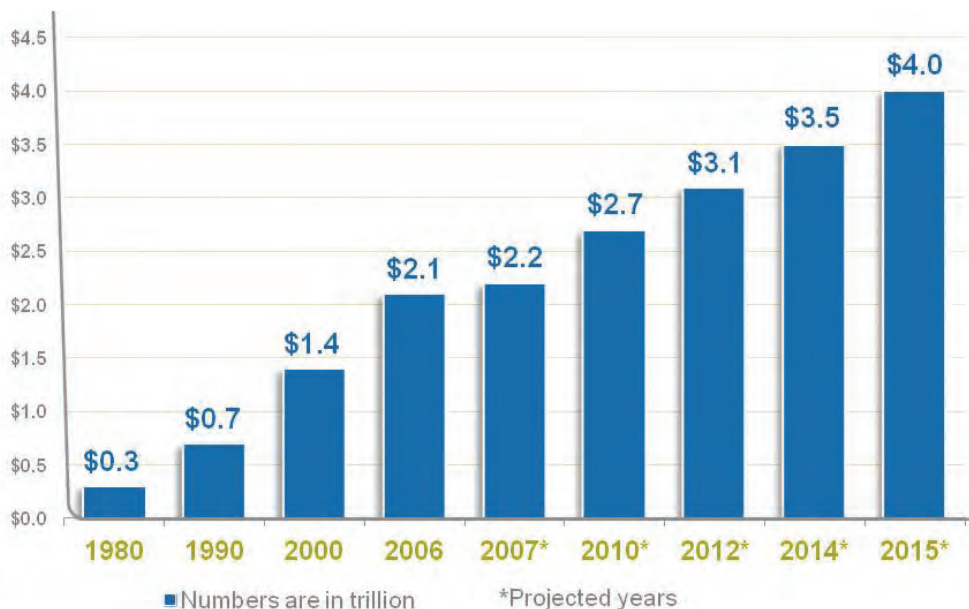
Health care costs are high and are expected to climb even higher. Not exactly front page news is it? Still, employers often wonder why their rates continue to go up year after year. **In the past, we could point to the rising trends in medical, pharmacy and hospital costs as the main causes** (see graph below). But **employer**

groups have told us that they wanted a more complete answer to their question. So we've put together this **in-depth look** at what's driving rates higher each year — and what Anthem is doing to help.

But knowing why costs have increased isn't the entire story. There's positive news too. That's because Anthem is finding ways to bend the cost curve down with solutions that combat the underlying causes of rising costs. We're providing greater transparency on costs to our members and more information about the quality of care. And we're encouraging all of our members to be more engaged in their **health and wellness.**

Prescription, doctor and hospital costs:¹

National Health Expenditures



1 U.S. Department of Health and Human Services, Office of the Actuary. Released January 2008
<http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2007.pdf>,
<http://www.cms.hhs.gov/NationalHealthExpendData/downloads/nhe65-17.zip>

Getting to the roots of rising costs

So what exactly is behind the exploding growth in the cost of health care? The main drivers of higher rates continue to be the overall cost and volume of services.² But more specifically, there's a list of factors that keep pushing costs higher.

Technology, prescription drugs and provider costs

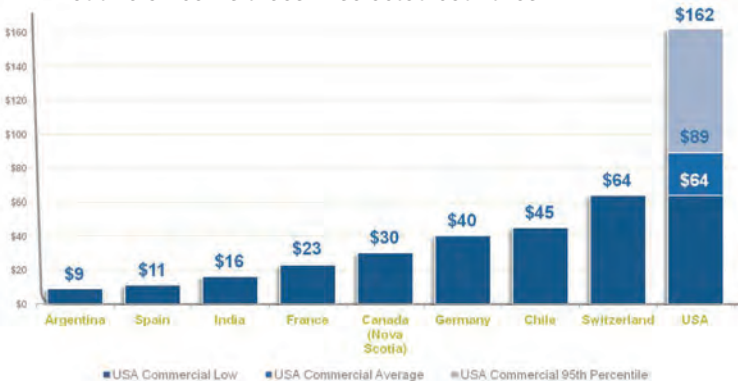
In most industries, improved technology usually lowers costs. The opposite is the case in health care, where **improved technology has driven costs up**. Though a benefit for the level of service, new medical technology accounts for an estimated one-half to two-thirds of the growth in health care spending.³ Prices for diagnostic imaging tests, like MRI and CT scans, can vary widely (see chart below), but a higher price doesn't guarantee better quality. In the U.S. we pay significantly higher rates for

Diagnostic imaging tests — MRI and CT studies⁷



Utilization:⁸

Routine office visit fees in selected countries



these same imaging services, than patients in other countries do.⁴ **We also use costly technologies more often in this country**. For every 1,000 Americans we perform 91.2 MRI exams and 227.9 CT exams.⁵

Patients in the U.S. also pay a relatively high cost for ordinary services such as routine office visits. The average cost of a routine office visit in the U.S. is almost triple what patients in Canada pay; the top-end cost is more than five times higher.⁶

Higher utilization

Higher utilization means **more people are using health services more often than they did before**. For example, from 1990 to 2008, the U.S. increased spending on prescription drugs almost 600%. Today the average American fills **12 prescriptions every year** and almost two out of three people fill at least one prescription sometime during the year.⁹ In the U.S., prices for the 30 most commonly prescribed drugs are 33% higher than in Canada and Germany, and more than double the prices in Australia, France, Netherlands, New Zealand, and the U.K. On the other hand, prices for generic drugs are lower in the U.S.¹⁰

Utilization:¹¹

Drug prices in selected countries

	Prices for 30 most commonly prescribed drugs, 2006-07 (U.S. set at 1.00)		
	Generic	Brand name	Overall
Australia	0.40	2.57	0.49
Canada	0.64	1.78	0.77
France	0.32	2.85	0.44
Germany	0.43	3.99	0.76
Netherlands	0.39	1.96	0.45
New Zealand	0.33	0.90	0.34
Switzerland	0.51	3.11	0.63
United Kingdom	0.46	1.75	0.51
United States	1.00	1.00	1.00

2 Milliman, 2012 Milliman Medical Index: milliman.com.

3 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

4 International Federation of Health Plans, 2011 Comparative Price Report, Medical and Hospital Fees by Country..

5 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

6 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

7 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

8 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

9 Kaiser Family Foundation: "Prescription Drug Trends," May 2010 <http://www.kff.org/rxdrugs/upload/3057-08.pdf> (accessed July 5, 2011).

10 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

11 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

Unhealthy lifestyles

Preventable risk factors like **obesity and smoking** can lead to chronic diseases, which are responsible for **75% of health care spending each year**.^{12,13,14}

One study estimates that almost **10%** of all medical spending in 2008 could be linked to **obesity**. Unfortunately, **more Americans are becoming obese**. In 1999 about 31% of Americans had a body mass index (BMI) of 30 or above (the criterion for obesity). In 2009 the number had climbed to almost 34%. Notably, the percentage of Americans who are obese outpaces the rate of obesity in countries that share our standard of living, like France, Sweden, Japan and Germany.¹⁵ **If we could reduce** the rates of **smoking and obesity** in this country, it's projected that **we could save almost \$475 billion** over 10 years.¹⁶

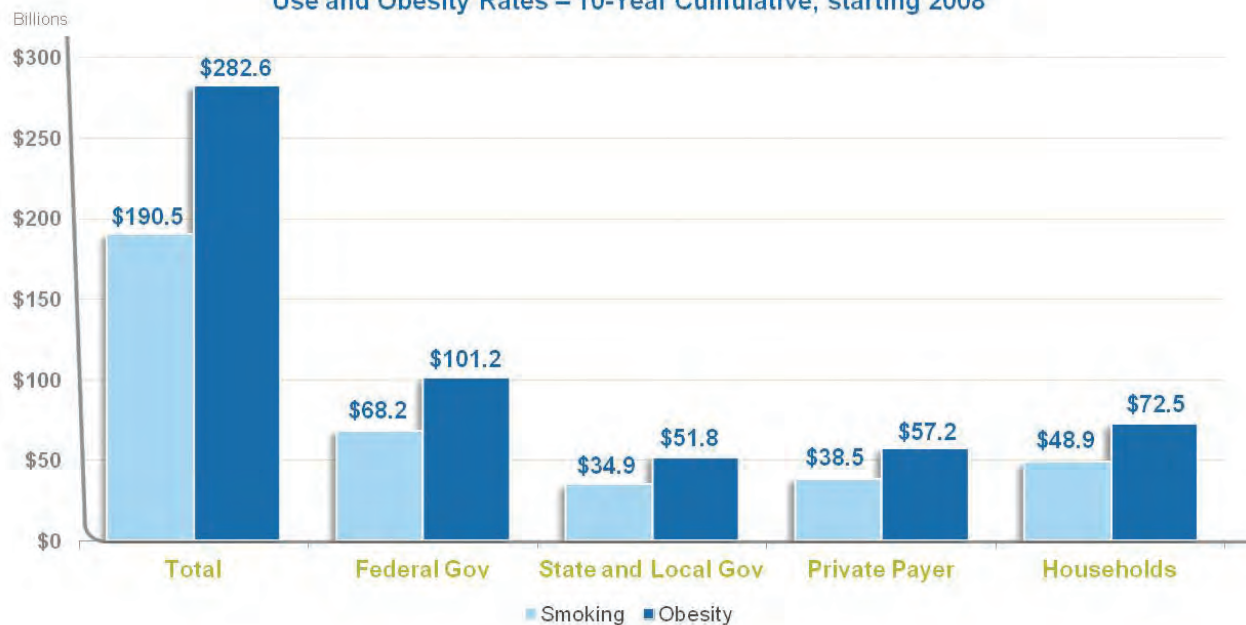
Less healthy population¹⁷

Obesity rates by selected countries

	Obesity (% population with BMI ≥ 30)	
	1999	2009
Australia	21.7%	24.6%
Canada	13.6%	24.2%
Denmark	-	-
France	8.2%	11.2%
Germany	11.5%	14.7%
Japan	2.8%	3.9%
Netherlands	8.7%	11.8%
New Zealand	18.8%	26.5%
Norway	6%	10.0%
Sweden	8.1%	11.2%
Switzerland	6.8%	8.1%
United Kingdom	20.0%	23.0%
United States	30.5%	33.8%

The real cost of unhealthy employees¹⁸

Projected Medical Cost Savings by Reducing Tobacco Use and Obesity Rates – 10-Year Cumulative, starting 2008



12 Thorpe, et al, Health Affairs, June 2005.

13 PriceWaterhouseCoopers, "The Factors Fueling Rising Health Care Costs 2008" December 2008.

14 Will Dunham, More Americans getting multiple chronic illnesses, Thomson Reuters, January 2009.

15 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

16 The Commonwealth Fund, Bending the Curve, December 2007.

17 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

18 The Commonwealth Fund, Bending the Curve,

Other factors

Unneeded services

Inappropriate treatments and unnecessary testing add extra costs to health care. A decade-long study has found that **33% of all procedures** performed in the U.S. are either **unneeded** or provide questionable benefits to patients.²¹

Complying with **mandates and laws**

Private health insurers in this country spend more than **\$339 billion a year** complying with government regulations. A portion of that total pays for services patients need, such as screenings and prescription drugs. But more than half goes to regulatory costs, which cover things like filing and reporting.²²

Inflation

Most things cost more these days, and health care is no exception. But medical price inflation is outpacing the overall rate of inflation and is driving more than half of the rise in our health care spending.²³

Health care fraud and abuse

The financial loss due to health care fraud and abuse has been estimated to range from \$70 billion to \$234 billion every year, or \$190 to \$640 million per day.¹⁹ The National Health Care Anti-Fraud Association estimates that **\$0.03 of every dollar we spend on health care is lost through fraud every year.**²⁰ And the number of instances of fraud and abuse has been rising steadily. Prescription drug diversion, patient recruitment schemes, unlicensed clinics, and patient fraud are just a few examples of fraudulent activity.

Health care reform

The Affordable Care Act will bring new rules for insurance premiums, a new framework for benefits, and new taxes and fees. In some cases there are government subsidies available too. These changes probably mean that **costs will increase for some groups because of the cost of new mandated benefits, taxes and fees. For others they'll decrease.** What's more, some groups will lose discounts while others will benefit from discontinued surcharges. The bottom line is that the impact of reform on costs will vary significantly from group to group.

19 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

20 National Health Care Anti-Fraud Association "The Problem of Health Care Fraud." http://www.nhcaa.org/eweb/DynamicPage.aspx?webcode=anti_fraud_resource_cent&wpscode=TheProblemOfHCFraud (accessed June 9, 2011).

21 <http://www.rand.org/health/feature/forty/health-services-utilization-study.html> (accessed June 9, 2011).

22 Conover, Christopher J. "Health Care Regulation: A \$169 Billion Hidden Tax." October 4, 2004. http://www.cato.org/pub_display.

23 Businessweek, "Behind Rising Health-Care costs" July 14, 2008. http://www.businessweek.com/technology/content/jul2008/tc2008079_279097.htm (accessed June 9, 2011).



What Anthem's doing to control costs

Here are some of the innovative tools and programs we're using right now to reduce costs for small groups, all of which are included in our health plans at no additional cost.

Cutting-edge innovative programs

We're offering programs and tools that both improve the health of members and help lower costs for groups. Patient Safety First . . . A California Partnership for Health is an innovative partnership involving 160 hospitals across the state. To date it has helped save 973 lives, has reduced costs by \$19 million and has led to a 6.8% drop in the number of elective deliveries before 39 weeks.²⁴

We've teamed up with IBM to develop solutions based on their Watson technology. We are pioneering a research tool using IBM Watson that may help physicians select more effective treatment options. We envision doctors using IBM Watson capabilities to look at a vast library of state-of-the-art clinical information and millions of pages of real-world health data made accessible to IBM Watson. We expect doctors to use IBM Watson to harness the power of this data and apply it directly to the unique needs of each patient.

Our clinical staff will use IBM Watson too. We expect these tools to help process treatment requests faster, to help save our members time and to create efficiencies in the approval process.

Health & Wellness programs

Anthem's Health & Wellness is a total-health program that surrounds our members with a comprehensive suite of solutions that have helped reduce the rate of hospital readmissions, the length of hospital stays and the number of emergency room visits.

- **24/7 NurseLine** lets members speak with a registered nurse anytime day or night, wherever they are. Nurses help them make informed decisions and decide when and where to get appropriate care. Members using 24/7 NurseLine are **50% less likely** to go to the ER for non-emergency care.²⁵
- **MyHealth Advantage** alerts members when their medical treatment doesn't meet proven best practices. With better member engagement we can often single out issues faster and maybe even prevent them. MyHealth Advantage also alerts members to opportunities to save on a prescription by switching to another brand or a generic.
- **Future Moms** offers education and support to help moms-to-be understand how their choices affect both their health and their baby's health. Members receive educational materials in the mail and a team of ob-gyn nurses and specialists are available to support during the pregnancy and can answer follow-up questions after delivery. Taking part in the program may result in lower medical costs for both mother and baby.

- **ConditionCare** and **ComplexCare** are condition management programs that give members the resources and support they need to manage chronic conditions like asthma and diabetes. Members using ConditionCare have missed 50% fewer work days.²⁶

Visit the **Health & Wellness** page here.

Generic Prescriptions

One of the easiest ways for our members to save money is by using generic drugs. Through our Generic Premium program they get the medicine they need without paying high prices for brand name drugs. (Some brand name drugs are covered too). Generics have the same active ingredient, strength and dose as their brand counterparts. They also have to meet the same high standards for purity, quality, safety and strength that brand drugs do. But generics typically cost 30% to 60% less than the brand version they replace.

Home delivery pharmacy

Anthem members may be able to pay fewer drug copays for each 90-day supply by choosing the convenience of the Home Delivery Pharmacy (depending on the plan design). And, with medications delivered right to the member's home, the Home Delivery Pharmacy helps members stay current with their medications. This helps reduce doctor and hospital visits and leads to overall lower health care costs.



24 Sarah Goodell, M.A. and Paul B. Ginsburg, Ph.D., "High and rising health care costs: Demystifying U.S. health care spending," October, 2008. <http://www.rwjf.org/pr/product.jsp?id=35368> (accessed June 9, 2011).

25 Anthem Health and Wellness Solutions Member Satisfaction Survey (2010).

26 360° Health Program Results (2011).

Transparency Tools

Estimate Your Cost tool

There can be a big difference in costs for services charged by different providers. Anthem's Estimate Your Cost tool allows members to pro-actively find personalized-to-their-plan cost estimates for **common shop-able procedures** across facilities and care settings. By integrating both cost estimates with valuable quality information, members can understand their opportunities to save without having to compromise on quality of care.

Emergency room alternatives tool

Emergency room visits rose 32% from 1996 to 2006. But 17% of all ER visits could've been treated at an urgent care center or a retail health clinic.²⁷ The average copay for an ER is \$150 to \$250, while the copay for quick care options such as urgent care and retail health clinics is only \$20 to \$75.²⁸ That's why we're actively promoting ER alternatives to our members when they need quick care but it's not an emergency. They're likely to get quality care at a lower cost by going an alternate route. By entering their ZIP code, members can find the closest retail clinic or urgent care center using Google Maps. Test drive our ER alternatives tool at anthem.com/ca/eralt.

Zagat rating tool

Anthem has partnered with Zagat to offer provider ratings and reviews within our online Find a Doctor tool. Members find value in having access to opinions from their peers—and a trusted source—about the quality of care received from providers, and in being able to provide feedback based on their own experiences at the same time. The Zagat health survey compiles data about patients' experiences with their providers, with a focus on member trust, provider communication, provider availability, the care environment, and member recommendation. This information empowers our members to choose a provider using the criteria that are most important to them.

²⁷ National Hospital Ambulatory Medical Care Survey: 2006 Emergency Department Summary.

²⁸ Anthem Blue Cross Blue Shield, Where to get care when you need it now flier (May 2012).

Anthem initiatives

Preventive care benefits

One of the best ways to lower the demand for costly health care is to help people stay healthy longer. That's why Anthem provides preventive care benefits, many which are covered at 100% with no deductible or copay. For children we cover services like physical exams, screenings and immunizations. Adults get similar coverage along with an expanded list of preventive care for women.

Fraud prevention and repair


Anthem is part of the National Fraud Prevention Partnership, a mixed public-private initiative aimed at reducing health care fraud and abuse. We also have dedicated teams that work to prevent fraud, uncover it when it happens and recoup the money lost because of it. Some new measures we've proposed include collaboration on investigations and expanded data sharing to help curb fraud and abuse.

Case management

Our case managers work with members who've had a hospital stay to coordinate their care and help them understand their doctor's instructions. This has improved their health and cut down on the number of repeat visits.

Utilization management

Hospitalizations and involved medical care are expensive and often confusing to members. By reviewing health care services and making sure members get only the care they need, we are able to more closely track medical costs and often reduce inpatient hospital days.

A photograph of a young man with dark hair, smiling broadly while holding a black mobile phone to his ear. He is wearing a light blue button-down shirt. The background is a blurred outdoor scene with a body of water and buildings.

Additional resources

For more information about how we're working to control small group costs and for other resources please contact your regional sales manager. You can also learn more online at anthem.com/ca.