Blue Cross & Blue Shield of Rhode Island
2009 Affordability Plan
May 15, 2009

Current Situation: Projected Trend rates

(Per Section C of OHIC Affordability Report Guidance – March 27, 2009)

Expense Category	Share of Total Medical Expense (%)	Price Trend (%)	Utilization Trend	Overall Trend 2009 to 2010 (%)	Prior Year (2008-2009)
Inpatient Hospital	22.2%	8.5%	1.0% (1)	9.6%	9.0%
Outpatient Hospital	22.6%	7.8%	5.3% (1)	13.6%	7.9%
Pharmacy:	18.8%				
Small Group & RI Builders		11.5% (2)		11.5%	11.6%
Large Group		10.8% (2)		10.8%	10.5%
RI Primary Care Physician	4.2%	19.3%	3.5% (1)	23.5%	
Other Physician/Other	31.7%	3.0%	3.5% (1)	6.6%	9.2% (3)
Major Medical	0.5%	1.6% (2)		1.6%	15.5%

(1) Utilization and mix trend
(2) Price, utilization and mix trend
(3) Total Physician trend. Trend was not split between PCP and Other last year.

System Affordability Strategy

(Per Section D of OHIC Affordability Report Guidance – March 27, 2009)

1. **List and comment on the three most significant drivers affecting medical costs that you see in the Rhode Island market in the next five years.**

    1. Brand name pharmacy costs: As more drug classes include generic alternatives, brand manufacturers are struggling to maintain profits. The per-script cost trend increased 13.6% in both 2007 and 2008 and is projected to increase at a similar rate moving forward.
    2. Advances in technology: These include medical devices, 'specialty' pharmaceuticals, imaging, etc. In addition to new technology being introduced, added use of existing technology will increase utilization, thus increasing costs.
    3. Hospital payments: Reimbursement increases to hospitals are expected to continue as a major cost driver in the Rhode Island market. Over the last several years we have seen very modest increases overall in hospital volumes, shortfalls in payments from Medicare and Medicaid programs and declines in the value of endowments. Commercial payors are the only major source to make up the aforementioned shortfalls and cover increasing costs.

Blue Cross & Blue Shield of Rhode Island
2009 Affordability Plan
May 15, 2009

Briefly (in less than 1 page), what is your company's strategy – given these cost drivers – to improve the overall affordability of health care in RI in the next five years?

Our strategy is to measurably improve the health of our members and reduce the growth rate of their healthcare costs. We will help our members navigate through the healthcare system and we will partner with physicians and providers to help them deliver high quality and cost efficient care. We will accomplish this by integrating new consumer engagement tools and programs, innovative physician and provider partnerships and new innovative products. A successful implementation of this strategy will result in lower premium rate increases, higher physician satisfaction and improvements in the health of BCBSRI's membership, and a more efficient and higher quality delivery system for Rhode Island.

3. **Anticipated overall annual trend for the next three years:**
   a) Baseline trend: Assuming consistent membership + benefit mix, with no new programs.
   b) Baseline trend: After adjusting for membership/benefit mix.
   c) Adjusted trend: Adjusted for impact of affordability strategy outlined in your response to question number two.

		2010/2009	2011/2010	2012/2011
a)	Small Group & RI Builders	10.4%	10.6%	10.5%
	Large Group	10.3%	10.5%	10.4%
b)	Small Group & RI Builders	8.2%	8.4%	8.3%
	Large Group	8.1%	8.3%	8.2%
c)	Small Group & RI Builders	See Note		
	Large Group			

Note: Affordability strategies are anticipated to produce savings over the long term; however, their impact is difficult to estimate. Furthermore, administrative costs will be higher than savings in the initial years.

Rate Factor Standards for Medical Cost Improvement
(Per Section E of OHIC Affordability Report Guidance – March 27, 2009)
BCBSRI commitment to OHIC-detailed affordability standards may be found on Pages 6 & 7 of this document.

Blue Cross & Blue Shield of Rhode Island
2009 Affordability Plan
May 15, 2009

Company Specific System Affordability Initiatives
(Per Section F of OHIC Affordability Report Guidance – March 27, 2009)

Please list the five most significant (in term of overall financial impact) initiatives your company is undertaking to improve the affordability of healthcare in Rhode Island in the next three years.

Initiative	OHIC Affordability Principles targeted	Description	Implementation Strategies employed	Approximate expected return (Savings as % of spend)
1.Patient Centered Medical Home expansion	I, II, IV	Development of physician practice model which results in the delivery of high quality, cost efficient care for the chronically ill. Care is provided by a team of providers, with the primary care physician at the center of care.	BCBSRI will identify, engage, train and financially support primary care practices to develop PCMH.	See note below
2.Radiology Management Program	IV.	Continuation of prior authorization program for high tech radiology services	Continuation of existing program. Modifications made to program as warranted.	Estimated 4 to 1 return vs. investment
3.Best practices in clinical care (Evidence Based Medicine)	II.	Establishment of nationally (and locally) recognized clinical guidelines to be adhered to in a variety of specialties.	Identify areas of opportunity where significant variation exists. Engage appropriate providers in development of standards of care.	See note below
4.EMR Grant Program	I, II, and III	Program to offer funding for the purchase of a qualified EMR and practice readiness assessment.	Grant application process to begin in the Spring of 2009 with payouts beginning in the Summer of 2009. Preference will be given to the specialties most involved in the IHM strategy.	See note below

Blue Cross & Blue Shield of Rhode Island
2009 Affordability Plan
May 15, 2009

5.Health Coaching and Expanded Disease management programs	II.	In an effort to complement the expansion of patient centered medical homes, BCBSRI will develop more robust programs through our Health Management and Integration and Customer Service departments as well as the Health and Wellness Institute to assist members in the self management of a variety of conditions (e.g., Diabetes, Congestive Heart Failure, etc.)	Expand screening activities to drive early identification. Introduce programs and tools tailored to risk profile and life stage. Engage patient regarding information on their condition(s) and develop commitment toward lifestyle modification and treatment compliance. Improve care coordination and execute expected best practices.	See note below

Note: See Section 2 of this Affordability Report. It is difficult to estimate with precision the savings that will flow from any new affordability initiatives. Additionally, since this is an integrated strategy that includes items 1, 3, 4 and 5 above (as well as other efforts) it is not possible to segregate the financial impact of individual initiatives. We are estimating a return on investment on our commercially insured business for the first five years (2010-2014) of 1.5:1 for the overall strategy.

Blue Cross & Blue Shield of Rhode Island
2009 Affordability Plan
May 15, 2009

Commitments to Standards

Standard #1: Primary Care Spend

BCBSRI commits that the rates proposed in this filing were developed such that the portion of medical expense allocated to primary care for the 12 months starting January 1, 2010 is one percentage point of total medical expense greater than for the twelve month period beginning January 1, 2008.

Standard #2 Chronic Care Model Medical Home

BCBSRI commits to supporting the expansion of a multipayer Patient Centered Medical Home project during the period July 2009 to June 2010 in the following ways:

a. Said expansion will entail an increase of at least 15 PCP FTEs from the current 28 FTE level, including the addition of new practices beyond the existing 5 CSI-RI practice participants.
b. This expansion shall include some of the elements included in the initial CSI-RI implementation including training in the Chronic Care Model, and funding of a nurse case manager, among other CSI-RI elements. However, the details of this expansion may not exactly mirror that of the existing CSI-RI program.

Standard #3 Mandated EMR Incentive

BCBSRI commits to implementation of a physician (primary care and/or specialty) EMR adoption incentive on or before January 2010, that meets the following standards:

a. The incentive must be applied to practice adoption of EMRs with:
    i. certification by the Commission for Healthcare Information Technology (CCHIT)
    ii. registry functionality to promote patient tracking in the manner prescribed by NCQA PPC-PCMH standards for a medical home

b. The incentive will be equivalent in value to one or more of the following thresholds:
    i. initial payment per physician to subsidize the cost of EMR acquisition as follows: $5,000 or more, up to practice maximum of $15,000.
    ii. support for the cost of EMR implementation and operation in the form of pay-for-participation payments equal to $0.60 PMPM or in increased fees, totaling in value at least 3% greater than the insurer's standard fee schedule.

Blue Cross & Blue Shield of Rhode Island
2009 Affordability Plan
May 15, 2009

Commitments to Standards (cont.)

Standard #4 Fundamental Payment Reform

BCBSRI commits to participation in a state facilitated process to explore, assess, recommend and adopt reforms to health care service payment in Rhode Island. Participation shall include:

a. active engagement as a member of the stakeholder body to be convened by OHIC in coordination with other state government entities
b. Provision of non-competitive information to the body to assist in its deliberations

Agreement to participate in this state facilitated process does not constitute agreement with the outcomes and/or recommendations of the process.

5/15/2009

Augustine Manocchia, M.D. — Date
Chief Medical Officer
Blue Cross Blue Shield of Rhode Island