

Blue Cross & Blue Shield of Rhode Island
2009 Affordability Plan
September 4, 2009

Current Situation: Projected Trend Rates

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

Plan 65 Non-group Expense Category	Share of Total Expense (%)	Price Trend (%)	Utilization Trend	Overall Trend 2009 to 2010 (%)	Prior Year (2008- 2009)
Part A Deductible	12.4%	4.1%	0.0%	4.1%	4.3%
Part A Co-payments	0.9%	4.1%	0.0%	4.1%	4.3%
365 Additional Days	1.5%	3.1%	0.0%	3.1%	3.6%
Skilled Nursing Facility	13.4%	4.1%	0.0%	4.1%	4.3%
Part B Deductible	7.9%	8.2%	0.0%	8.2%	0.0%
Part B Physician Co-insurance	43.0%	0.8%	4.0%	4.8%	6.7%
Part B Outpatient Co-insurance	20.8%	2.1%	1.0%	3.1%	3.7%
Foreign Travel Emergency	0.1%	0.0%	0.0%	0.0%	0.0%

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.

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2. 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)	Plan 65 Medigap and Select	4.5%	5.1%	3.4%
b)	Plan 65 Medigap and Select	4.5% ⁽¹⁾	5.1% ⁽¹⁾	3.4% ⁽¹⁾
c)	Plan 65 Medigap and Select	See Note (2)		

(1) Since Plan 65 covers the cost-sharing for traditional Medicare, any benefit changes in Medicare are already accounted for in the baseline trend.

(2) 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. Since Plan 65 covers the cost-sharing for traditional Medicare, the ability to impact trend for these products is minimal.

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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

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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
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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. BCBSRI's ability to affect trend and affordability on the Plan 65 product line is limited due to the fact that it is a Medicare supplemental plan.