



Getting to the bottom of health care costs

A look at rising premiums and what we're doing to help control them

Health care costs and premiums go hand-in-hand

It's a question we've heard hundreds of times: "Why are my health care premiums going up when I only went to the doctor once?"

A lot of people think their premiums increase only because they've used too many health care services — like what happens to your car insurance if you get too many speeding tickets. But that's not how individual health plans work. Premium adjustments are based on age, location and — most importantly — the expected cost to pay members' claims in the upcoming year. As that cost continues to go up, premiums go up. Even for people who don't use a lot of health care services.

The fact is that costs are rising rapidly within the whole health care system. By 2019, the U.S. will spend about \$4.4 trillion on health care.¹ Yes, trillion with a "t." It's hard to wrap your head around a number that big, isn't it? Here's what it really means:

- Almost twice what we spent in 2007
- About 1/5 of our economy
- More than \$13,000 per person each year

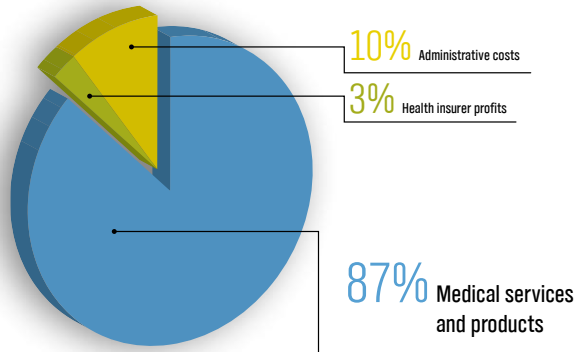
Unfortunately, there's no magic bullet to change the direction we're heading in. But here's where we can start ...

When health care costs go up, often premiums go up, too. When premiums go up, families may have less money to spend on gas and groceries and, well, everything else. That's where the problem really hits home.

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Based on industry averages, 87% of the premium is used to pay for health care services members receive – things like doctor visits, hospital costs and prescription drugs.²

Here's a look at why the cost of those services keeps going up:



More costly technology, used more often

Medical technology is the key driver of health care spending, accounting for an estimated half to two-thirds of spending growth.³ As new tests and more costly equipment come out, we can expect to see an increase in the use of these services – even though they're not necessarily more effective than existing, less expensive services.

Prescription drug costs and use

Nearly two-thirds of Americans fill a prescription during the year – and the average American fills 12. From 1990 to 2008, spending on prescription drugs increased nearly six times over – making drugs the fastest-growing segment of health care spending.⁴

Unhealthy lifestyles

Preventable risk factors like obesity, smoking and drug abuse play into increased use of health care services and can lead to chronic diseases, which account for 75% of U.S. health care spending each year.^{5,6,7}

Services people don't need

Tests that have already been done. Treatments used despite a lack of proof they work. The costs add up. On average, one-third or more of procedures performed in the U.S. appear to be inappropriate or offer questionable benefits to patients.⁸

Health care fraud

The National Health Care Anti-Fraud Association estimates conservatively that 3% of all health care spending is lost to health care fraud each year. That's \$68 billion a year – or more than \$180 million per day.⁹

Complying with laws

It's estimated that private health insurers nationwide spend more than \$339 billion a year to comply with government regulations. Some of this money is used to pay for required services like screenings. But more than half is spent on regulatory costs such as filing and reporting.¹⁰

Cost shifting

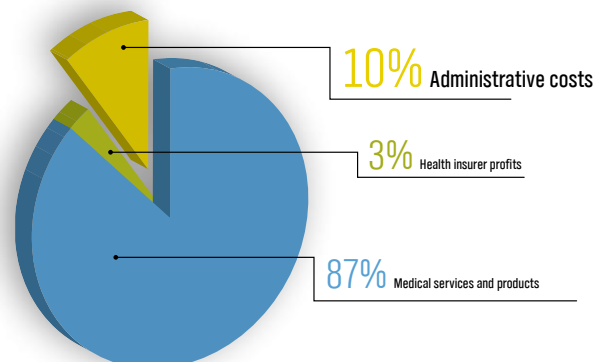
There's a significant difference between Medicaid and Medicare reimbursement rates and the rates of private insurers. One report estimates this leads to health care cost increases of about 10%, or \$1,788 yearly, for a typical family of four that has private health insurance.¹¹

Inflation

Just as we spend more today for a gallon of milk than we did 20 years ago, we spend more for health care services. This health care price inflation outpaces general inflation and drives 51% of the growth in health care spending.¹²

On average, 10% of the premium pays for administrative services like claims processing, enrollment, billing, provider credentialing and complying with government rules.¹³

Some of our efforts to control the rising cost of care are also considered administrative services. Here are some key things we're doing to try to control costs:



Helping members save money on care

The discounts we negotiate with providers help customers save millions of dollars on health care every year. We developed a program that uses Google Maps, an online tool and targeted outreach to help members avoid costly emergency room visits in nonemergency situations. And we've started a program to help members avoid high costs for services like MRIs and CT scans.

Working to lower drug costs

Our pharmacy benefit manager helps members get more value for their money through outreach programs that aim to improve medication compliance and encourage use of generic drugs when the doctor agrees they're appropriate. And we're working to promote better use of medicines by supporting new ways to reduce harmful drug events, among other activities.

Empowering members to take charge of their health

We work with members to help them reduce risk factors like obesity and smoking. For example, members can take a health assessment to find out about their personal risk factors and access information about diseases, medicines, procedures and treatments at anthem.com. For members who already have chronic or complex health problems, we offer programs with nurses to help them manage their health.

Promoting quality, not quantity

We're encouraging treatments that generally work and are beginning to pay doctors based on their performance.

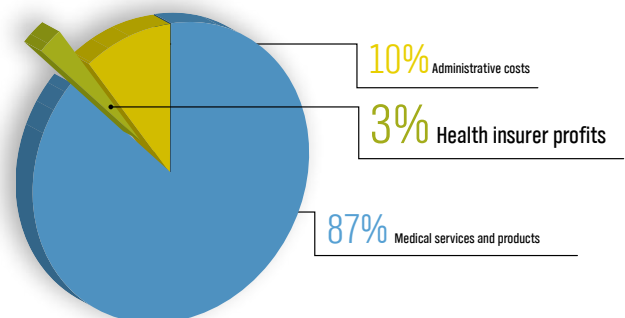
Finding and fixing fraud

We have dedicated teams that work to prevent, find and recoup dollars lost to fraud.

Making our operations more efficient

As part of our efforts to control customers' premiums, we've taken steps to control our own costs for many years. This includes investing in technology that streamlines claims payment, helping to reduce costs while improving customer service.

That leaves 3% of every premium dollar as a buffer to make sure claims can be paid if there's a significant spike in health care spending, as well as for profits and paying taxes. We also use this part of the premium to make investments in new products and to improve the lives of the people we serve and the health of our communities.



Anthem continues to be a trusted choice in part because of our history of financial stability. We're committed to being here for our customers when they need us — and we can only do so if we're managing our financials responsibly and operating profitably.

As health care costs keep rising, we'll continue to focus on what's most important to our members: helping them improve their health and save money on care.

How will health care reform affect costs?

The Affordable Care Act will have wide-ranging impacts on the health insurance marketplace, especially for individuals buying coverage on their own. There are new rules for insurance premiums, a new framework for benefits, new taxes and fees, and, in some cases, government subsidies available.

These new changes mean that insurance premiums will increase for some and decrease for others. Some parts of the law are likely to raise costs for members. For example, the cost of new mandated benefits, taxes and fees will be included in premiums. Additionally, new rules for insurance premiums mean that some individuals will lose discounts, while others will benefit from the elimination of surcharges. The bottom line is that the impact of reform can vary significantly from individual to individual.

As we continue to receive and evaluate health care reform regulations, we'll keep you informed about how the law will affect plan members. Find the latest information at healthychat.com.



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