

**JOINT LEGISLATIVE ECONOMIC
OUTLOOK AND REVENUE ASSESSMENT COMMITTEE**

January 5th, 2007

Draft Remarks

- **Chairman Goedde, Chairman Bedke and members of the Committee** – thank you for inviting me to appear before your committee today.

- My name is Jack Myers and I am the Executive Vice President and Chief Financial Office at Blue Cross of Idaho.

- I appreciate the opportunity to address your questions about the current status and future direction of the health insurance industry in Idaho – one of the key sectors in our state’s economy.

(Slide 1)

- The health insurance industry in Idaho is very stable and premium revenues will continue to grow because of medical cost trends and population growth.
- Irrespective of the financial performance of health plans, that is whether we make money or lose money, the state's tax revenues will increase because we pay a premium based tax not a tax on net income.
- This chart shows some modest declines in premium tax revenues beginning in 2005 for all types of insurance premiums (property, casualty, life, auto etc.). This is related to the legislation reducing out-of-state premium tax from 2.75% to 1.5% and increasing the Idaho domestic premium tax rate from 1.4% to 1.5%.

(Slide 2)

- State tax revenues from the insurance sector are 58% of the \$104 million miscellaneous category of revenue and Blue Cross of Idaho accounts for 16% of all premium tax.
- The 49% does not segregate the Health Insurance industry from property, casualty, auto and other insurance. However in the State of Idaho, there are two major carriers. Blue Cross insures 44% of the state insured population and Regence Blue Shield insures another 20% for a total market share of 64% by not-for-profit Blues Plans.
- The remaining 36% of the market is divided among a variety of national carriers, local third-party administrators and Blues Plans domiciled in other states.

(Slide 3)

Blue Cross of Idaho premium tax has increased about 240% in the five years since 2001 due to a 40% increase in membership and annual medical cost trends that have averaged above 10%.

(Slide 4)

Let me talk more about trend and the major factors driving trend. Top line premium revenues will grow 12 – 13% annually for the next couple of years. We expect membership growth will account for 3%, mirroring state population growth, and the rest will be driven by cost trends.

- As the chart illustrates, trend has come down from the low double digits to the high single digits over the past five years. We expect cost trend to increase slightly in 2007 driven partly by greater increases in Rx costs.

(Slide 5)

- This chart breaks down the major components of the healthcare cost dollar. Total hospital costs were up 8.1%.
 - Hospital inpatient costs are up 7.5%, driven by an 8.4% increase in price / acuity (or intensity) and technology and utilization of hospital inpatient services is actually down 8/10%
- Hospital services have shifted over to the outpatient setting with a utilization increase of 2.4% added to price and technology driving a 10% increase in overall outpatient trend.
- Surgeries done in an outpatient setting have grown 32% over the past 10 years while inpatient surgeries have remained essentially flat. This may be driven by technological advances such as less invasive arthroscopic surgeries and the proliferation of ambulatory surgery centers and specialty hospitals.

(Slide 6)

- Non-hospital services are mostly physician but include other providers of care, DME, etc. and are up 7.5%, split pretty evenly between price and utilization.
- Rx costs are up 8.3% and we expect the cost side to increase substantially as the depressive effects of generic equivalents stabilizes and historical price increases raise overall Rx trend above 10%

(Slide 6) – *Continued*

Part of the cost increase in commercial insurance is attributable to cost shifting from federal programs. This data shows that in 1997, hospitals enjoyed an average 11.5% margin on Medicare services. Changes in reimbursement from Medicare since then are resulting in hospital losses for these patients of 3% by 2004. These losses are compensated for by shifting the cost to insured and uninsured patients.

(Slide 7)

You asked questions about the completeness of insurance coverage for our Idaho citizens.

- Average premium per person was about \$200 in 2006. Those covered by employer plans have premiums above that amount reflecting more comprehensive benefits than members covered by individuals policies. With the trends I spoke of previously, I would expect premiums to be in the range of \$225 in 18 months.
- This chart indicates that 55.8% of companies with fewer than 10 employees offer health insurance to their full time employees and 9% of these companies offer insurance to part-time employees.
- These percentages grow as the company size increases with almost 97% of companies with 250 or more employees offering coverage to full-time employees and 51% providing the benefit to part-timers.

(Slide 8)

In terms of the amount of premium covered by employers, 80% of all employers pay at least 75% of the premium with the employee paying the difference through payroll contribution. As expected, the larger employers are more apt to pay at least 75%.

(Slide 9)

The picture is not as bright for family members with only 60.7% of the largest companies paying at least 75% of the premium and just 32% of smaller employers covering 75%.

(Slide 10)

Other major changes in our industry include:

- Consumer Directed Health Plans with high deductibles and Health Savings Accounts. Nationally, the adoption rate for these products is about 3% and at Blue Cross we are seeing a slightly lower adoption rate of 2.8%.
- Health Insurance plans are getting more involved in collaborative relationships with providers through disease management programs (diabetes, COPD, Asthma), quality incentive programs and wellness programs (identifying at-risk behaviors and educating members how to prevent illness).
- Perhaps the biggest change may be what congress or the individual states may do to provide universal or near universal coverage.
- Currently there seems to be more activity at the state level with eight states looking at legislation to provide insurance to more of their citizens. Private insurance seems to be an important part of these state's solutions. States are often looking at a combination of Medicaid expansion and employer / household requirements to obtain private insurance in order to reduce the uninsured population.

(Slide 11)

- The only state to have passed legislation is Massachusetts but there are significant fundamental differences between MA, Idaho and the nation as a whole.
 - Uninsured rate at 10.7% is significantly lower to begin with.
 - MA starts out with higher rates of employer coverage.
 - Higher median income able to afford mandated insurance.
 - Current Medicaid spending is more than double the Idaho rate per capita.

(Slide 11) - *Continued*

Finally you asked about the uninsured.

- Idaho's uninsured rate is 16.5% compared to a national rate of 15.7%. There are 16 states with higher uninsured rates. This however is an improvement from the same U.S. census statistics taken two years ago when 17.3% of our residents lacked insurance and we ranked 10th highest in the nation.
- Thank you again for the opportunity to appear before you today.
- I would be happy to respond to any other questions.

(Slide 12)