

Preserving Your Choices in Health Insurance

*Why it's
important
to Arkansas
families and
businesses*



Arkansas
BlueCross BlueShield

An Independent Licensee of the Blue Cross and Blue Shield Association

Why have health care issues become so confusing?



Things have been changing rapidly in health care all across the country, and Arkansas is no exception. Costs continue to increase, driven primarily by greater consumption of health-care products and services, and by the introduction of new technology and drugs.

In this time of rapid and sometimes confusing change, we thought it would be useful to

Arkansans to step back and put some of these changes in perspective. While we can only hit some of the high points in this short brochure, we welcome your comments and questions.



Robert L. Shoptaw
Chief Executive Officer
Arkansas Blue Cross and Blue Shield

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Who are the key players in health care?

There are three key players who must work together to make health care work in Arkansas:

- The **providers** of care — doctors, hospitals and other medical professionals
- The **recipients** of care — patients, like each of us
- The **purchasers** of care — individuals, employer groups, insurance companies

How is the cost of health care determined?

Medicine may be a calling but it is also a business. And like any business, health care providers (doctors and hospitals) must figure out how to charge for their fixed costs (facilities, technology, people), and make a reasonable profit, but at a cost that the purchasers can still afford. The finest health care in the world is of little use if people can't afford it.

How do Arkansas Blue Cross and its affiliated companies negotiate with doctors and hospitals to get lower costs for their customers?

As the representatives of hundreds of thousands of health care purchasers, Arkansas Blue Cross, Health Advantage and BlueAdvantage Administrators of Arkansas negotiate favorable prices for their customers. Arkansas Blue Cross and its affiliated companies go to providers with this proposition: "We have a large number of customers who may need the medical services you deliver, and we can promise to pay you an agreed-upon amount for those services in a timely manner, in exchange for favorable or discounted prices." It's a win-win-win trade for all three of the key players — providers get a steady flow of customers and timely payment for their services, recipients get the care they need, and the purchasers get it at a more affordable cost.



Why does Arkansas Blue Cross negotiate arrangements with some hospitals and not others?

Arkansas Blue Cross and its affiliates negotiate on behalf of their customers to make health care as affordable as possible for them. Arkansas Blue Cross is a not-for-profit mutual insurance company, which means it is owned by its customers, its policyholders. Everything we do is done to benefit our policyholders in Arkansas, not to benefit stockholders or outside-of-state investors. And because it represents the interests of many policyholders, Arkansas Blue Cross seeks discounts from most hospitals and not all.

In a typical community with two or more hospitals, Arkansas Blue Cross and its affiliates will approach one hospital and offer it the opportunity to be an in-network hospital for certain insurance products like preferred provider organizations (PPO) and health maintenance organizations (HMO). In exchange for providing medical services to these PPO and HMO customers, the hospital will agree to do so at a reduced cost to those customers.

A comparable example might be how your local department store decides what brand of TVs to sell. The store does not try to buy TVs from every manufacturer that makes them (even though every manufacturer would *like* it to). Rather, the store chooses a maker of good TVs and says that, if you'll give us a good price, we'll sell a lot of your TVs to our many customers, rather than competing brands of TV. In this way, the store is able to offer a few, select brands of TV (but not all brands) at a more affordable price.

In the same way, Arkansas Blue Cross and its affiliates include most, but not all, hospitals or doctors in their PPO or HMO networks to obtain more favorable pricing for its customers.

If all hospitals were in these managed care networks, we would face a situation similar to

Greenville, South Carolina, as described by the Center for Studying Health System Change. This recent study reported that when major health insurance companies in Greenville were induced to accept **both** major hospital systems rather than having an arrangement with only one, the health insurers lost the deep discounts they had negotiated for their customers, with higher premiums to customers likely to result.

Is it unfair to consumers to offer networks which do not include all hospitals and doctors?

No, not at all. In fact, rather than providing less choice, these provider network arrangements offer more choices to consumers, offering them a good balance of choice, coverage and affordability. Our challenge as a health insurance company is to offer a variety of health plans that meet the wide variety of needs and desires of our large and diverse customer base, at a cost they can afford to pay.

We sell products that pay for covered services of any doctor or hospital. All Arkansas doctors and hospitals in good standing are eligible to participate in the largest Arkansas Blue Cross network, called the Blue Book. Thousands of Arkansans with traditional, indemnity-type insurance products or Medicare supplemental policies may visit any provider they wish in this network.



Some customers prefer products that have lower premiums, but still have benefits available if a need arises to go outside a network. So PPO and point-of-service (POS) products are available for those customers. It's important to remember that these exclusive provider network arrangements (where some hospitals are in-network and some are out-of-network) are only for certain managed care products like PPOs and HMOs. And these networks are still very broad: 67 of the 80 acute care hospitals in Arkansas are in the PPO and HMO networks, as well as some hospitals across the border in neighboring states. It's also important to remember that even if certain hospitals are considered out-of-network for certain kinds of insurance products, those policyholders may still seek treatment from those facilities in emergency situations, or choose to use them at a higher out-of-pocket expense.

Our commitment to responding to market demands sometimes results in unique arrangements. For example, market demand in the Fort Smith area resulted in Arkansas Blue Cross and Health Advantage offering an arrangement which, if selected by an employer, allows employees to select either of the two major hospital systems in Fort Smith for their care on an annual basis. The employees can also choose to go to the non-selected hospital system for

services, but with additional out-of-pocket cost. The premium for this arrangement is higher than for similar products without the choice — much as the Center for Studying Health System Change anticipates will happen in Greenville, South Carolina.

More choice of providers and more coverage cost *more*. Less choice and less coverage cost *less*. We offer a variety of combinations and let our customers decide. And, of course, there are other provider network options available from insurers other than Arkansas Blue Cross, Health Advantage or BlueAdvantage.

Are these arrangements unfair to hospitals and doctors that aren't included in certain provider networks?

Not at all. Using the previous analogy, is it unfair that a department store doesn't buy its TVs from every company that makes them? No, it's good business and a beneficial way to provide its customers with a few, select brands of good-quality TVs at a better price.

It's also important to point out that there are other health insurance companies in Arkansas offering networks that include some hospitals but not others. Different insurance companies offer different networks, which leads to healthy competition. And every hospital and doctor in our networks is free to participate in the networks of our competitors.

Arkansas Blue Cross has consistently fought to hold down health care costs and provide our customers with affordable health insurance. In doing this, we have fought against unnecessary expansions of provider networks that would merely duplicate services and increase costs.

In 1995 Arkansas lawmakers passed "Any Willing Provider" (AWP) legislation, requiring health plans to contract with any provider willing to accept their terms and conditions. We knew the 1995 law would only increase premiums, while depriving our customers of the PPO and HMO options they had selected. What AWP actually does is eliminate the ability of employers and health plans to design and select alternative products that cost less.

Proponents argued that consumers should be able to choose their providers. We agreed with that concept. That's why, after the 1995 statute was invalidated by the federal trial and appellate courts, we worked with providers, employers, state legislators and others to pass the "Freedom of Choice Among Health Benefit Plans Act of 1999." This 1999 law gives Arkansas citizens the right to choose a plan with access to services of "any qualified health care provider," placing choice at the consumer level.

In August 2003, Arkansas Blue Cross and Blue Shield and its subsidiary, USABLE Corporation, asked the U.S.



District Court in Little Rock to determine the status of the 1995 “Any Willing Provider” (AWP) law. There were differing opinions about the effect of a U.S. Supreme Court decision on an AWP law passed in Kentucky. We initiated this action to clarify the law in Arkansas. We are committed to preserving choice and keeping health care as affordable as possible for our customers and all Arkansans.

Arkansas Blue Cross is neither the key to success nor the cause of failure of any hospital in Arkansas. We are only a part of the health-care financing market in Arkansas. On average, we account for only about 25 percent of the total revenue of most hospitals, since they are doing business with many other insurers, government, self-funded plans and individual patients. But more importantly, there are many internal and external factors affecting the financial health of hospitals today.

What are the factors putting financial pressures on hospitals and doctors?

According to the Center for Studying Health System Change, hospitals in Arkansas are seeing some of the same developments that are occurring in other areas of the country, such as:

- Increasing competition from outlying hospitals for complicated or high-tech services, such as open-heart procedures, that used to be done only in the large hospitals in the population centers.
- Increasing availability of technology which allows physicians to perform procedures in their offices rather than admitting the patient to a hospital.
- The establishment of narrow-focus specialty hospitals, such as heart hospitals or women’s hospitals, which may gain revenue that would otherwise have gone to general or community hospitals.



The American Hospital Association (AHA) reports that Arkansas has many more hospital beds per population than the nation as a whole, ranking 37th highest. According to the AHA, the Little Rock Metropolitan Statistical Area (MSA) has 4.5 staffed beds per 1,000 population — almost double — compared to an average of 2.5 beds per 1,000 in all other MSAs of 200,000 people or more. The average for all of Arkansas is 3.54 beds per 1,000 population, compared to the overall national average of 2.9 beds per 1,000. Obviously, with this many hospital beds competing for patients, some will go unused. In fact, according to the Arkansas Hospital Association, the average occupancy rate for all Arkansas hospitals in 2001 was 58.4 percent, meaning they were a little more than half full.

Doctors and hospitals nationwide are facing significant challenges, and again, Arkansas is no exception. Government programs, such as Medicare and Medicaid, have been

reluctant to increase payments to providers and in some cases, have even reduced payments. This puts pressure on providers to make up lost income by increasing charges to health insurance plans and individual patients.

What is Arkansas Blue Cross doing to help keep health care affordable?

At the end of this brochure is a special section that lists seventeen specific ways that Arkansas Blue Cross and its affiliates are working to hold down costs.

But first, some facts about the Arkansas health care and insurance marketplace:

- Arkansas Blue Cross and its affiliates are driven by these core values: responsiveness to the marketplace in terms of a wide selection of products and providers; a desire to provide superior service to our customers and providers; and keeping administrative expenses low.
- The health-care market covers a lot of ground. There are government programs for the elderly (Medicare) and the needy (Medicaid). There are many employers who maintain self-funded plans and shoulder the risk and responsibility for their employees’ medical care on a direct basis. There are a large number of uninsured Arkansans (450,000 or so) who have direct responsibility for their medical needs. And there are insurance companies and HMOs which sell policies to groups and individuals. In this last category, according to the Arkansas Insurance Department, there are 402 companies selling health insurance in Arkansas, 168 of which receive more than \$100 million annually in premiums from Arkansas and other states. Plus there are an additional 488 companies licensed to sell health insurance in Arkansas if they choose to do so.
- Arkansas Blue Cross, Health Advantage and BlueAdvantage do business only in Arkansas. Most of our competitors operate in several or even all states. As a result, they can pick and choose when and if they want to compete in Arkansas. Also, because of their regional or national scope of operations, they can decide to serve only certain market segments, or only selected geographic areas within the state. We have been here (and only here) for over 50 years and must survive by having competitive prices made possible by having a substantial number of customers. To do that, we must serve the entire state with as broad a range of products and services as feasible.



How do health insurance premiums in Arkansas compare with the rest of the nation?

According to a survey of group insurance rates compiled by the Kaiser Family Foundation, rates from Arkansas

Blue Cross and Health Advantage are lower than the national averages. For the nation as a whole, the average monthly premium in 2002 for family PPO coverage was \$670; the comparable Arkansas Blue Cross premium was \$597. For POS coverage, the average national premium in 2002 was \$681; the comparable Health Advantage premium was \$629.

Also, according to the Robert Wood Johnson Foundation Employer Health Insurance Survey in 1997, premium rates in the Little Rock MSA were about **13 percent below the average** of such premiums in all MSAs with more than 200,000 population.

According to Milliman USA's *Health Cost Guidelines* for 2003, the average per capita health-care cost in Arkansas (based on billed charges) is approximately **9 percent lower** than the national average.

Where does your premium dollar go?

By far the biggest portion of your premium dollars goes to pay doctors, hospitals and other providers for the covered medical expenses incurred by our members, as reflected in the chart below (Loss Ratio column). You also can see from the chart (Net Income column) that the health insurance business is very cyclical, typically involving a few years of gains, followed by a few years of losses, and so on. **Over the past 10 years, net income as a percent of premiums has averaged only 1.9 percent**, and more than half of that net income came from earnings on investments.

While Arkansas Blue Cross recently had good financial results, net income, as always, is held for the benefit of policyholders, to pay claims and expenses in future years, if needed. State laws and regulations, along with Blue Cross and Blue Shield Association requirements and prudent business practice, require healthy reserves. And in addition to normal health concerns, we now have the unfortunate potential of a larger-scale public health event such as a local "SARS" outbreak or some form of bio/chemical terrorism. If this were to occur in Arkansas, our entire reserves are subject to being utilized to care for our covered members.

Gains usually result when members use fewer medical resources than predicted at the time rates were set. Rates must always be projected into the future, based on past experience and trends, and a small error on the low side can result in large losses and less security for the payment of members' covered expenses.

So where are things headed in Arkansas?

Issues in health care will continue to be complex and pressures will continue to drive costs higher. But Arkansas Blue Cross, Health Advantage and BlueAdvantage will continue their commitment to work with all the players involved to keep health care as affordable as possible for the people of Arkansas. We will continue to work in the spirit of our corporate theme: **Together. For a State of Better Health.**



Arkansas Blue Cross and Blue Shield — Summary Financial Information

Year	Premiums	Loss Ratio	Administrative Expense Ratio	Net Income	Net Income as a percent of Premiums
1993	\$442,601,771	80.4%	12.9%	\$28,119,306	6.4%
1994	\$436,055,793	83.5%	15.9%	\$9,667,765	2.2%
1995	\$460,421,004	87.8%	18.3%	-\$11,025,978	-2.4%
1996	\$499,939,032	90.0%	19.6%	-\$21,538,315	-4.3%
1997	\$508,624,532	86.8%	17.7%	\$467,218	0.1%
1998	\$576,178,614	84.3%	16.6%	\$6,332,774	1.1%
1999	\$668,241,391	84.5%	15.4%	\$13,240,084	2.0%
2000	\$770,846,195	87.8%	12.5%	\$11,223,248	1.5%
2001	\$912,914,679	82.7%	12.6%	\$33,262,335	3.6%
2002	\$856,517,316	73.6%	14.4%	\$48,155,161	5.6%
Total	\$6,132,340,327	83.6%	15.2%	\$117,903,598	1.9%

Source: Statutory filings with the Arkansas Insurance Department

- **Loss ratio** — amounts incurred for covered hospital, medical and prescription drug expenses for our members, expressed as a percent of premiums.
- **Administrative expense ratio** — the costs of processing and paying member claims, providing customer service and other administrative costs, including premium taxes, expressed as a percent of premiums.
- **Net income** — what is left after payment for covered benefits, administrative expenses and taxes. Since Arkansas Blue Cross is a not-for-profit, mutual insurance company, this amount is held for the benefit of members, to be used to pay claims or expenses in years when revenues are not sufficient to cover them. Arkansas Blue Cross does not pay dividends to stockholders.

How is Arkansas Blue Cross working to hold down health care costs?

At Arkansas Blue Cross and Blue Shield, we conduct our business with three simple thoughts in mind:

1. We want you to be healthy.
2. If you get sick, we want you to receive excellent care from quality-oriented doctors and hospitals.
3. We don't want you to go bankrupt in the process.

Below are some of the ways we are working to hold down the cost of health care:

Contracting for Savings — As Arkansas' largest health insurer serving hundreds of thousands of Arkansans, we are able to work with physicians and hospitals to provide our members with appropriate medical care at a lower cost. In exchange for a steady volume of patients with health insurance, we are able to contract with doctors and hospitals that agree to provide their services to our members at a discounted fee. In return for timely payment from Arkansas Blue Cross, participating providers also agree not to "balance bill" our members for any additional charges above the agreed-upon fees. By working together, we are able to strike a balance between providing reasonable reimbursement to medical professionals and keeping costs down for our members.

New Choices in Health Plans — In addition to offering a wider choice of health plans in Arkansas than anyone else (major medical, PPO, POS, HMO, Medicare supplement insurance, individual and group coverages), Arkansas Blue Cross and Health Advantage have introduced a new generation of products that provide an added level of affordability and individual control.

Not-for-Profit — With rising medical costs causing health insurance premiums to increase, it's important to understand that Arkansas Blue Cross is a not-for-profit, mutual insurance company. That means that we are owned by our policyholders, not by stockholders. Because we pay no dividends to stockholders, all revenues earned by Arkansas Blue Cross are used in only two ways: To pay providers and members for covered benefits and to pay associated administrative expense. Any revenues received that are greater than these two categories of expense are held as unassigned funds (surplus) for the future benefit of our members.

Low Operating Costs — In the past three years, an average of 81 cents of every premium dollar was used to pay for actual medical care received by our members. An average of 13.2 cents of every dollar was used for costs associated with processing and paying member claims, providing customer service and other administrative costs. In addition, *we saved our members more than \$381 million*

in 2002 alone through our cost-containment initiatives. This is a savings to our members of \$3.09 for every \$1 in administrative expenses.

Electronic Submission of Claims — A major part of administrative expense is the cost of processing claims. Claims may be submitted in paper as well as electronic form. However, it costs approximately 50 percent more to process a paper claim as compared to an electronic one. To take advantage of this cost difference, Arkansas Blue Cross has invested in technology that facilitates the electronic submission of claims from providers. As a result, approximately 70 percent of all claims now are submitted electronically. The savings from this more efficient process helps keep the cost of coverage at the lowest level possible.

Customer Service Workstation — Providing faster, more complete customer service is another way we hold down costs. A new computer information system — called the Customer Service Workstation (CSW) — enables our employees to access all needed customer information (from claims status to what's covered) from their computer terminals. The CSW improves efficiency and increases response time to customer inquiries, helping to lower administrative costs.

Web Sites and Health Magazine — Arkansas Blue Cross and its affiliates use *Blue & You*, a quarterly magazine, and their Web sites to communicate preventive health information to members, which helps reduce health care costs. Members can access their own claims information 24 hours a day, seven days a week, through *My Blueprint* (Web) and *My BlueLine* (telephone). These communications tools offer a cost-effective way of informing members about their benefits and help reduce the need for calls to Customer Service.

Pharmacy Formulary — Arkansas Blue Cross works to control escalating drug costs through its Pharmacy and



Therapeutics Committee, whose decisions form the basis of the Three-Tier Medications Formulary. The committee, the majority of whose members are doctors and pharmacists from outside our organization, makes recommenda-

tions regarding preferred and non-preferred medications. Members can save the most money by using generic drugs, which are always on the first tier of the formulary, requiring the lowest co-payment.

Coverage Policy — Your health insurance contract or plan does not provide coverage for every medical service,

procedure, device or drug that a health-care professional may decide to use to prevent, diagnose or treat a particular medical problem. If it did, your coverage might be far too expensive for you to afford. Your contract or health-plan coverage contains certain restrictions designed to keep your premium affordable. Some of these restrictions are specific contract exclusions (e.g., cosmetic surgery), and some are more general exclusions (e.g., non-coverage of experimental or investigational services). Some emerging technologies, considered experimental or investigational, might not be effective, and some might even harm patients. Sometimes these new technologies are used before there is any medical or scientific consensus that they are safe and effective. You may view these Coverage Policies at www.ArkansasBlueCross.com and www.HealthAdvantage-hmo.com, in the Members section.

Case Management — Nurses work with members and their physicians through case management to recommend the most cost-effective health-plan benefit options to finance an individual’s physician-recommended treatment plan. In catastrophic cases, such as brain or spinal cord injuries, burns or multiple traumas, a national network of expert consultants is available to help patients and physicians assess health-plan benefit options.

Transplant Network — Arkansas Blue Cross works with members and their physicians to secure transplant services through the Blue Quality Centers for Transplants, founded nationally by the Blue Cross and Blue Shield Association (BCBSA). To qualify for the transplant network, facilities must meet specific clinical criteria (including consideration of patient outcomes), which are established with the advice of a panel of nationally prominent transplant specialists. After a facility meets the inclusion criteria, an agreement is made on favorable pricing. By using this network, the member receives transplant services performed at facilities and by medical professionals who have met basic network criteria, with the added benefit of BCBSA-negotiated cost savings.

BlueCard® — Members of an Arkansas Blue Cross-affiliated health plan may use the BlueCard program to obtain coverage and access network physicians and hospitals throughout the U.S. and in 130 other countries. Members simply show their ID card to receive health-plan benefits similar to their local Blue Plan while traveling outside of Arkansas. These providers file claims automatically for members and agree to accept negotiated fees for their services. BlueCard out-of-state coverage for some HMO plans may cover urgent/emergency care only.

Fraud Investigation — Detection, prevention and elimination of fraud, abuse and over-utilization are essential to maintaining a health care system that is affordable for everyone. Arkansas Blue Cross aggressively investigates

and pursues the prosecution of perpetrators, who drive up premium costs for everyone. The company also actively cooperates with criminal investigations conducted by federal, state and local authorities and encourages education about fraud and abuse.

Blue & You Foundation — The *Blue & You Foundation For A Healthier Arkansas* is a charitable foundation established and funded by Arkansas Blue Cross to promote better health in Arkansas. The Foundation anticipates awarding up to \$1 million in grants annually to non-profit or governmental organizations and programs that positively affect the health of Arkansans. By providing funding and working together with other organizations, the Foundation hopes to establish or expand a number of diverse health care projects that will benefit all Arkansans over the long run.

Community Health Programs — The *Blue & Youth Health Program* uses a big blue sheep, BlueAnn Ewe, to teach



school-aged children the importance of practicing healthy habits such as eating right, exercising, practicing safety, and preventing tobacco and drug abuse. Through an elementary classroom presentation, a middle-school student teaching/mentoring program (High School Heroes), a health “club” for kids, animated musical television commercials and a wild and woolly kid’s Web site

(www.BlueAnnEwe-ark.com), the *Blue & Youth* program has taken healthy messages to more than 480,000 Arkansas youth in the past seven years.

Wellness Discounts — Arkansas Blue Cross and its affiliates have negotiated discounts with health and fitness clubs, sporting goods and fitness equipment stores for members of Arkansas Blue Cross, Health Advantage and BlueAdvantage. Discounts are obtained by showing your individual or family health insurance card at the time of club enrollment, purchase of services or retail sales. A directory of vendors offering discounts is available on our Web sites in the sections entitled “Members.”

Health Education Programs — Arkansas Blue Cross and Health Advantage offer health education programs to members free of charge. These programs provide information and links to local, regional and national resources to help members manage disease and prevent complications of illness. Programs now are available for diabetes, respiratory health, cardiovascular disease, low back pain and Special Delivery, which educates expectant mothers about preterm births. Informed members are more able to make choices that help them achieve better health, which leads to improved quality of life and lower health care costs.



Blue & You.

Together. For a State of Better Health.

www.ArkansasBlueCross.com
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