

# Helping Our Customers Understand The Changing Dynamics Of Health Care

Getting The Most Out Of Your Health Benefit Programs  
While Strategically Managing Costs



To Our Valued Customers:

At HealthAmerica and HealthAssurance, we place great value on the quality of our customer relationships. We subscribe to a consultative approach that allows us to learn our customers' businesses and work collaboratively on implementing appropriate health benefit solutions.

One of our primary goals is to provide our customers with responsive, quality service backed by commitment and dedication. We have a history of successfully working with Pennsylvania employers for over 25 years, and we pride ourselves on making sure our customers get the most out of our health benefit programs.

Over the past year, we have seen the rising cost of health care impact not only our customers, but also many associated with the health care industry. The ramifications of escalating costs are significant and, if left unattended, they will disadvantage our economy and result in a decline in quality of life. Inherent in HealthAmerica and HealthAssurance's mission is providing access to quality, affordable care, and therefore, we are compelled to take action on this matter.

We know employers face increasing challenges in managing health benefits programs, and we have developed this document to help our customers better understand some of the factors driving health care cost increases. Our hope is that after reading this paper, our audiences will be more knowledgeable and better prepared to control rising health care costs.

But, as with any difficult issue, we recognize that there are no easy or quick solutions. This paper is the first in a series of initiatives aimed at helping our customers understand how we approach cost management and how they can participate in the process. We will continue working closely with the many stakeholders on this matter, and in some cases, we will be calling on our employer customers to help jointly support proposed solutions.

Sincerely,

A handwritten signature in black ink, reading "Francis S. Soistman, Jr." in a cursive script.

Francis S. Soistman, Jr.  
President and Chief Executive Officer

## The Rising Cost of Health Care

Providing access to quality, affordable health care is one of our nation's greatest challenges. Ongoing regulation and innovation have become prevalent in an industry that has, perhaps more than any other, a direct impact on people's lives. More people are using health care benefits and services today than ever before. Our population is aging, consumers are more educated and actively participating in their wellness, and more diverse and expensive treatments continue to be introduced to the health care system.

We've seen a shift in the paradigm from lower cost Health Maintenance Organizations (HMOs) to more flexibility and choice in higher-priced Preferred Provider Organization (PPO) and Point-of-Service (POS) plans. Health care demographics indicate that older individuals are embracing HMOs more frequently and that younger consumers are gravitating toward the PPO and POS plans. Prescription drug costs continue to heavily impact health care prices, as direct-to-consumer advertising has supported exponential growth in the pharmaceutical industry.

Purchasers of health care benefits are struggling to balance cost, quality, and competitive coverage. The demand for rich benefits still exists, and surveys show that increasing health care costs are among the top concerns of employers. Approximately 15 percent of health care costs goes toward pharmacy benefits, and at the current annual cost trends of 20+ percent, health care expenses could double in three years.

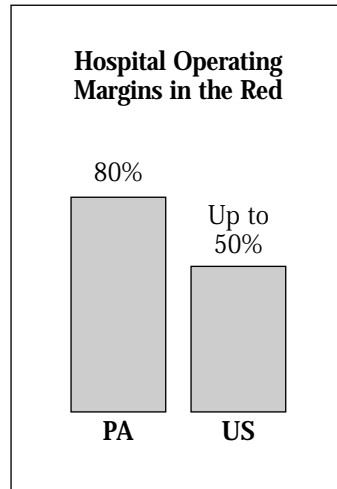
As leading regional health plans, HealthAmerica and HealthAssurance have worked with our customers to address the issue of controlling costs and providing solutions to mitigate against rising employer premiums. We believe that working together collectively with our various constituents is the only reasonable answer that will bring a comprehensive solution.

We understand that managing health care costs has become a strategic initiative for our customers, and we have developed this document to help educate you about 1) issues affecting health care costs, 2) what HealthAmerica and HealthAssurance are doing to control costs, and 3) what employers can do to control costs while maintaining high-quality benefits for their employees. At HealthAmerica and HealthAssurance, we believe in taking a consultative approach with our customers, promoting open exchanges of ideas and information. We welcome your continued feedback and encourage your input on ways we can better work together in providing the appropriate level of health care coverage for your employees.

# Part 1: Issues Affecting Health Care Costs

## Balanced Budget Amendment Act (BBAA) of 1997

The Balanced Budget Amendment Act (BBAA) of 1997 has had a dramatic impact on physician and hospital costs. The BBAA defines reimbursement levels for hospitals for Medicare recipients. As you may know, Medicare patients make up a considerable amount of most hospital revenue. As a result of the reduction in reimbursement rates, hospitals were forced to increase prices to their commercial customers (among them, health plans) to make up for the revenue loss. The unfortunate part of this issue is that cost increases for hospitals have a direct impact on consumers and employers that purchase health care benefits.



## Technology Advancements

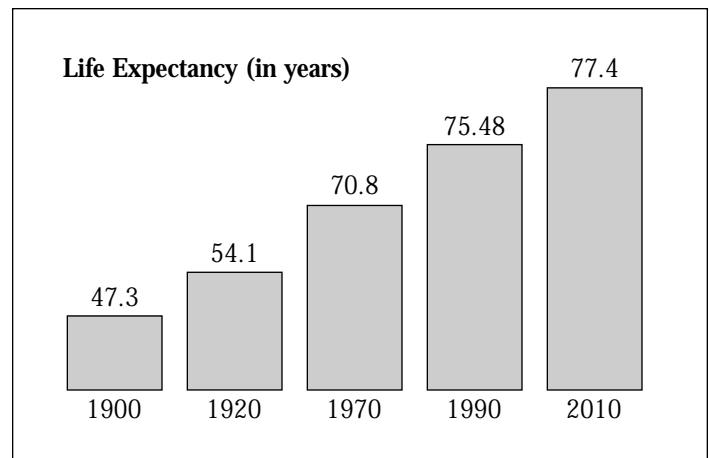
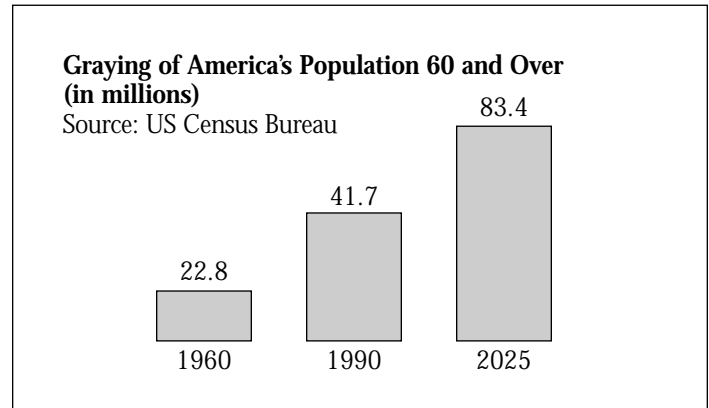
Advances in technology continue to pave the way for innovative treatments, increased hospital/facility treatment capability, and a shift from inpatient to outpatient care. Many of the technological advances make it easier and quicker to get care; however, the price to administer new treatments in some cases can be more costly than the previous process/technology replaced.

Advanced technologies are not being concentrated in referral or specialty centers however. With community hospitals expanding capabilities, we see market saturation, excess capacity, and increased overhead. Recommendations for experimental treatments are growing despite unproven efficacy and questionable safety. For a rising number of cancers, bone marrow and stem cell transplants are being recommended to lengthen exposure to and dosage of chemotherapies. And, Sickle Cell disease and other inherited diseases are now also being treated with transplants.

## Utilization Increases

Numerous aspects contribute to an overall increase in health benefit and service usage. Consumers have more access to health-related information through the Internet, the media, and celebrity cause promotion/awareness.

They are taking a more active and proactive role in their health by seeking additional screenings, tests, and preventive wellness programs.



Another factor contributing to increased utilization is the aging population of Pennsylvania with 2.5 million residents older than 60. People are living longer and extended care is required in greater capacity. And, because physician offices are equipped to handle a growing number of diagnostic procedures, more consumers are taking advantage of the convenience of these services.

## Prescription Drug Costs

Rising pharmacy costs are a major contributor to significant increases in health care premiums. A recent Merck-Medco study cites that drug costs have more than doubled over the past five years. Thirty percent of growth in the study comes from increased consumer use, 34% stems from drugs being used more often in treatment, and 36% is due to more expensive drugs. From 1992 through 1999, national pharmacy costs have risen from approximately \$6.50 per

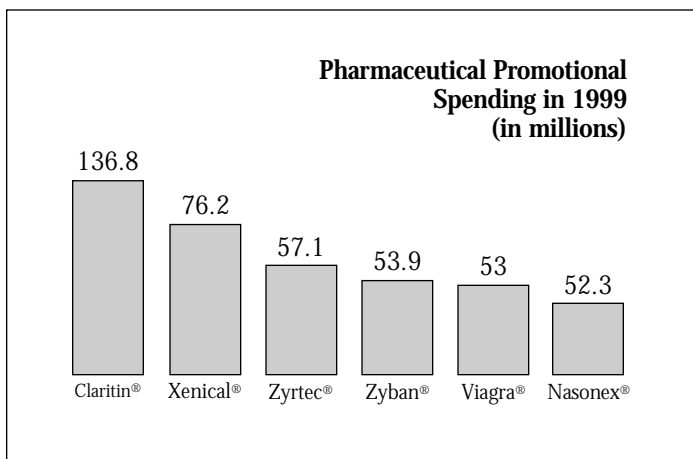
member per month to \$23 per member per month. And, current trends project that the \$120 billion-a-year pharmaceutical business could nearly double by 2004<sup>1</sup>.

With the Fortune 50 made up almost exclusively of pharmaceutical and biotech companies, it is understandable that pharmacy benefits are one of the largest contributors to health care cost increases. Detailed below is a further explanation of how the pharmaceutical industry directly impacts health care costs.

### **Direct-to-Consumer Advertising**

The pharmaceutical industry spent approximately \$13.9 billion on promotional advertising to consumers in 1999<sup>1</sup>. Consumers have been bombarded with television, print, radio, direct mail, and free-sample promotions to generate massive drug and brand awareness. Demand for brand drugs is greatly increasing, and the pharmaceutical industry has made it easy for physicians to oblige through free samples that ultimately lead to prescriptions.

Pharmaceutical companies have also targeted physicians (and physicians-to-be) as a sell-through mechanism to get greater exposure to consumers. Medical students and residents are routinely treated to meals in return for listening to a drug company's product presentation<sup>1</sup>. Doctors are well-compensated to attend pharmaceutical product "education" sessions, where they are paid for attendance, treated to a nice dinner, and in some cases paid extra to address the group concerning a drug's benefits<sup>1</sup>.



<sup>1</sup>Joseph P. Shapiro and Stacey Schultz. "Prescriptions: How your doctor makes the choice." *US News & World Report* 130.7 (2/19/01): 58-61.

### **New Drug Approvals**

The Federal Drug Administration has made it easier in recent years to take new drugs to market. This has opened the door for greater potential of drug recalls and lengthened timeframes for production of generic equivalents. With greater brand drug demand and profitability, fewer generic drugs are being developed and more brand drugs are being introduced to treat common ailments. Numerous new drugs are made available to treat existing diseases, but in many cases without clinical proof that they are any more effective than existing generic or brand drugs. Continued discovery is determining that several popular and often expensive drugs originally developed for serious conditions are also effective in treating routine health problems.

For example, Sporanox® was developed to treat life-threatening infections and has also been found to reduce foot fungus. A three-month treatment for foot fungus costs over \$500. For uncomplicated heartburn, one of the newest drugs, Prilosec® averages approximately \$100 for a one-month treatment versus over-the-counter Zantac® at approximately \$15 per month. And recent approval of an antiviral agent to reduce the symptoms of influenza brings the question of medical necessity to the forefront.

### **Decreased Hospital Stays/Treatments**

Medical research and development has led a trend toward decreased hospital stays, experimental treatments, and more procedures being performed at outpatient facilities. Drug therapy has helped enhance these treatment protocols to allow patients to treat their illnesses at home. However, this new trend is also contributing to exponential increases in pharmacy costs. With an aging population factored in, drugs have become a front-line treatment that can be quite costly when taking into account experimental treatments and overall increases in usage.

### **Industry Regulation**

Health care quality, availability, and accountability have become a unifying factor in the political and legislative arenas. Reforming our nation's health care system is a concept being embraced by a majority of Americans. Most of the reform initiatives have been focused on increasing access to care and enhancing coverage which has had an inflationary effect on health care costs.

Lawmakers are mandating health benefits such as diabetic care, OB/GYN open access, mental health parity, and emergency room access, to name a few. The Patient Bill of Rights has become an emotional trump card for politicians, and legislation such as Physician Collective Bargaining threatens to drastically alter the landscape for providing cost-effective, quality health care. More recently health plans are having to rework their entire systems and operational procedures to meet the Health Insurance Portability and Accountability Act (HIPAA), which is said by Price Waterhouse Coopers to collectively cost more than four times as much to implement as Y2K initiatives. As a result of these factors, escalating cost increases continue to feed the growth of the uninsured population across the country.

Implementation of legislative/regulatory measures is commendable, as long as the process is fair, takes into consideration the consequences, and doesn't ultimately succumb to special interest pressure. The health care industry is heavily regulated by many organizations and agencies that truly help enforce quality, service, integrity, and promote continuing improvement. However, for the protection of all involved, ongoing education and awareness about health care legislation/regulation serves to help decision-makers fully understand how changes can affect the entire system.

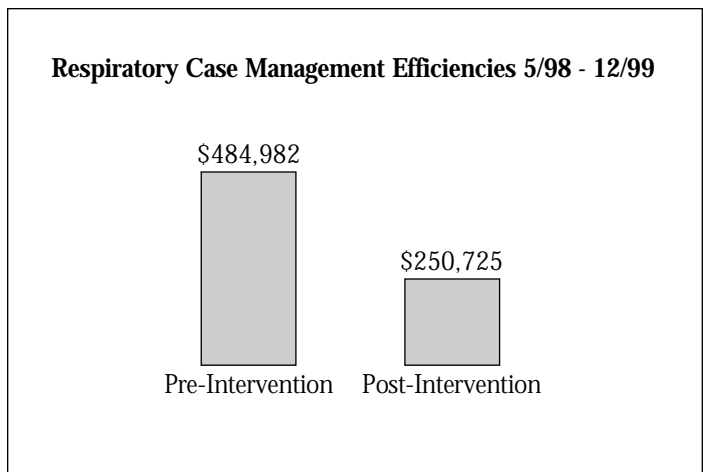
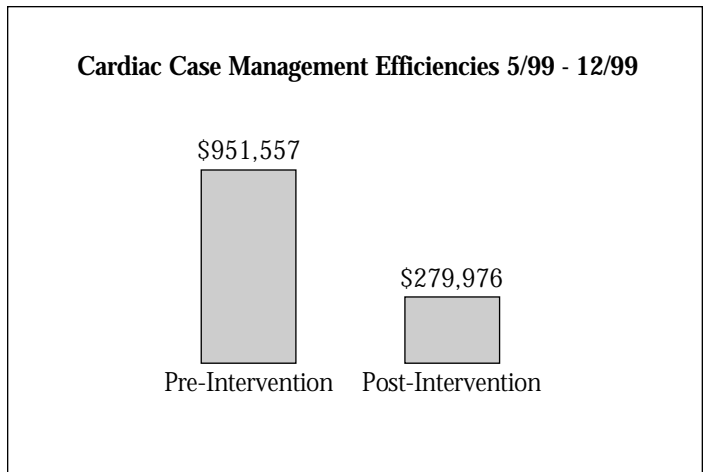
## Part 2: HealthAmerica and HealthAssurance's Role in Managing Health Care Costs

As responsible health plans, HealthAmerica and HealthAssurance are taking a proactive approach to dealing with rising health care costs. Below are a few of our strategic initiatives that we believe will help us and ultimately our customers realize some health benefit cost savings.

### Complex Case Management

Our Complex Case Management programs combine education, coordination of medical care, and treatment oversight to ensure our members get proven, effective health care treatments in the appropriate setting. These programs are designed, through the assistance of specially trained nurse case managers, to help members proactively deal with their diseases. HealthAmerica and HealthAssurance have identified leading categories of diseases and provide Case Managers to assist qualified members with cardio-

vascular, diabetes, gerontology, maternal/child health, oncology, respiratory, transplant, and trauma/medical-surgical health issues. Case Management is proven to help reduce hospital stays and readmissions as members learn to better deal with their disease through awareness and in many cases appropriate prescription protocols. Last year, our cardiovascular and respiratory programs helped us recognize savings of nearly a million dollars.



### Prescription Drug Formulary

HealthAmerica and HealthAssurance's formulary has been an effective tool in ensuring proven, safe, and cost-effective drugs approved by the FDA are prescribed to treat our members. Our formulary offers appropriate diversity and selection and gives physicians a guide when prescribing drug treatments. We encourage generic usage as a means to give members the lowest cost without sacrificing quality, and we also provide members a way to obtain coverage for

almost any drug by sharing in the increased cost. Many of our employers have benefited directly from the use of a prescription formulary for two main reasons: pharmacy costs can make up 15% or more of employer benefit costs and pharmacy costs continue to rise at a rate of over 20% a year. However, ongoing education with our members can lead to even greater reductions in pharmacy benefit costs.

## Preauthorization

HealthAmerica and HealthAssurance use preauthorization to predetermine the medical necessity and benefit coverage of proposed medical care, promoting the concept of appropriate care for the appropriate condition in the most cost-effective setting. Working directly with members and their doctors, our goal is to fully leverage our facility and provider contracted arrangements so members get appropriate care when they need it. We have a dedicated team of individuals who evaluate care requests in addition to providing valuable information to physicians. Through a system created by a panel of 250 physicians and specialty societies nationwide, HealthAmerica and HealthAssurance use InterQual® to comprehensively evaluate preauthorization requests. InterQual's® decision-support system ensures consistency in our medical management, and this evidence-based application is constantly updated to help us objectively identify what constitutes medical appropriateness.

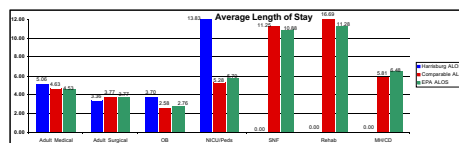
## Concurrent Review

The concurrent review process is conducted by our Utilization Management Department either through telephonic or on-site review. The major objectives of the concurrent review process are to continuously monitor the medical appropriateness and level of care, and to ensure the efficient management of inpatient stays. Our preferred method of concurrent review is onsite review. Telephonic review occurs in facilities that are out-of-network/area or in low census in-network facilities. Concurrent review is conducted on all members hospitalized in an acute, rehabilitation, subacute, or skilled nursing facility in accordance with established timeframes and using InterQual®. In 2000, we conducted on-site concurrent review at an average of 86% of our in-network acute facilities. Through this process, we can better work with our members to help them through the recovery process and closely monitor administration of medically-necessary care.

## Hospital Report Cards

HealthAmerica and HealthAssurance began an innovative approach over a year ago to provide benchmarks for its hospital network. This collaborative approach called Hospital Report Cards has allowed us to share efficiencies and shortfalls with our provider and facility network. Quarterly presentations of the Hospital Report Cards were designed to share data that would fuel discussions on ways we can partner with our network hospitals to improve care delivery. This initiative has provided our network partners with a vehicle to learn from each other, share best practices, and competitively strive for greater results. Specifically for the benefit of our customers, Hospital Report Cards are a means to help bring about savings on hospital stays, treatment procedures, and provide valuable feedback for future initiatives.

HEALTH AMERICA/HEALTHASSURANCE/ADVANTRA FACILITY REPORT PROFILE									
SEMI ANNUAL REPORT FOR HARRISBURG XXXXXX-JULY-DECEMBER 2000									
INPATIENTS*					SERVICE TYPES*				
ADMITS		ALOS			Harrisburg ALOS		Commercial ALOS		EPA ALOS
Advantra - Harrisburg	677	Advantra - Harrisburg	6.53	Adult Medical	0.06	Adult Medical	4.83	Adult Medical	4.93
Advantra - EPA	690	Advantra - EPA	5.97	Adult Surgical	3.38	Adult Surgical	2.77	Adult Surgical	3.77
Commercial - Harrisburg	762	Commercial - Harrisburg	4.51	OB	2.78	OB	2.76	OB	2.76
Commercial - EPA	8,318	Commercial - EPA	5.83	Med/Phed	13.83	Med/Phed	9.28	Med/Phed	10.78
<b>TOTALS</b>		<b>Harrisburg Admits</b>			<b>Harrisburg ALOS</b>		<b>Commercial ALOS</b>		<b>EPA ALOS</b>
Advantra - Harrisburg	411	Harrisburg Admits	823	Rehab	0.00	Rehab	16.69	Rehab	14.28
Advantra - EPA	3,483	EPA Admits	5,888	MHCD	0.00	MHCD	9.81	MHCD	6.48
Commercial - Harrisburg	3,434	Harrisburg ALOS	4.87	* Not Case Mix Adjusted					
Commercial - EPA	20,346	EPA ALOS	4.64	* Excludes MHCD					



Alternate Level/Denied DAYS									
Advantra									
Harrisburg Adv Alternate Level Days	44	Harrisburg Adv Denied Days	43	Harrisburg Adv Total Days	411	Harrisburg Adv Alternate Level Days	44	Harrisburg Adv Denied Days	43
Commercial					Combined				
Harrisburg Comm Alternate Level Days	462	Harrisburg Comm Denied Days	187	Harrisburg Comm Total Days	3,434	Harrisburg Total Alternate Level Days	506	Harrisburg Total Denied Days	230
EPA					Total				
Harrisburg EPA Alternate Level Days	3,434	Harrisburg EPA Denied Days	1,911	Harrisburg EPA Total Days	20,346	Harrisburg Total Alternate Level Days	3,940	Harrisburg Total Denied Days	2,051
Percentage					Percentage				
19%					10%				

## Claims Management

HealthAmerica's claims process includes a combination of manual and automated processing. Approximately 12% of all claims submitted are via electronic data interface and about 70-75% of claims are automatically adjudicated without human intervention. We utilize ClaimCheck®, an automated claims auditing system that verifies the coding accuracy of professional claims. HealthAmerica and HealthAssurance take an aggressive approach to claims accuracy. Utilizing Gabriele Medical Information Systems® (GMIS) software, we are able to identify inaccuracies and "creative" billing practices before claims are paid. We have full-time specialists, including registered nurses and an

accredited records technician, that use our comprehensive code review process to screen claims. Our teams are taught to identify standard deviations and are continually trained on common types of procedures that may be billed inaccurately. And, ultimately, claims may be sent to a medical director for review based on suspicion of incorrect information.

### **Automation of Business Services**

With a history of innovation, HealthAmerica and HealthAssurance consistently seek out opportunities to make doing business with us easier and more cost efficient. Over the last year we introduced in pilot phases WebMD® and BenefitExpress, in addition to our new website and customer service modules. Another cost-saving feature we employ is the acceptance of provider claim submission via electronic data interfaces.

#### **WebMD®**

Through the online WebMD® interface, providers can utilize electronic claim submission, electronic funds transfer, check member eligibility, view claim status, use health resources, and look up specialists.

#### **BenefitExpress**

BenefitExpress, an Internet-based tool, allows brokers the ability to quote instantly, generate custom proposals, enroll online, view health plan information and obtain medical underwriting.

#### **HealthAmerica and HealthAssurance Websites**

Our websites – [www.healthamerica.cvty.com](http://www.healthamerica.cvty.com) and [www.healthassurance.cvty.com](http://www.healthassurance.cvty.com) – premiered last year. Through increased functionality, our constituents have a wealth of information about our company and many specific online transaction capabilities. This year we will be introducing a new piece for members allowing greater access to review and manage personal health care transactions online.



### **Customer Service Workstation and E-ssentials**

Through our parent company Coventry Health Care, Inc., HealthAmerica and HealthAssurance have implemented cutting-edge customer service tools to better assist our staff in serving members and customers. The Customer Service Workstation is a set of applications which includes the Customer Service Console, a front-end software tool that manages workload, tracks requests, and documents customer information. In addition, the customer service staff has access to an online knowledge resource library called E-ssentials and a graphical user interface to view archived written customer documentation. The combination of these customer service tools helps us answer and resolve customer issues on the first call and cut down on the amount of paper involved in our processes.

### **A Spectrum of Products**

HealthAmerica and HealthAssurance have developed a diverse portfolio of products to assist our employer customers in selecting the most appropriate health benefits program for their employees. We have products ranging from traditional HMO, PPO, POS and Medicare+Choice plans, to small business plans, to "value" plans with rider options, to our newest consumer-directed health plan, HealthAssurance Flex™. Our philosophy is based on working with our customers in a consultative approach to help identify a health benefits program that meets cost, quality, and coverage needs for each individual group.

### **Industry Lobbying**

As a member of the Managed Care Association of Pennsylvania (MCAP), HealthAmerica and HealthAssurance are able to use additional resources to fight for issues that are important to us and to our customers. With initiatives such as physician collective bargaining, Patient Bill of Rights, and mandated health benefits on the horizon, we have an obligation to look out for the best interests of our constituents. While we strongly support quality care and responsibility in health care, we believe that governmental positions on issues affecting health care are not always in the best interests of all involved. For this reason, we have intensified our involvement in MCAP, including top executive participation.

## Hospital, Physician and Pharmacy Contracts

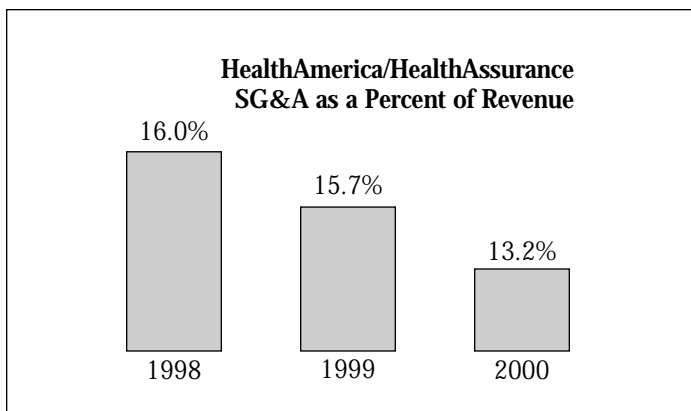
On behalf of our members and employers, we negotiate long-term discounted contracts with providers, hospitals and pharmacies. As a leading health care company in Pennsylvania, we can leverage the buying power of our members and employers to get competitive pricing. We have more than 11,600 doctors and over 113 hospitals in our network, which continues to expand.

## Incentives for In-Network Usage

Our PPO and POS plans offer members financial incentives for usage of in-network providers and facilities. We heavily promote in-network benefits in all our programs and encourage member utilization of contracted in-network providers and facilities. Our negotiated network contracts allow us to help members and employers realize cost savings, while obtaining the lowest possible rates we have available.

## Managing Administrative Expenses

We continue to drive down our administrative cost as a percentage of revenue. Existing investments in technology and the planned restructuring of our company for tax relief are two key areas we have identified to produce notable expense savings. Realizing that ongoing efficiencies are required to continue lowering SG&A expenses, we task our employees to look for ways to produce cost savings without compromising quality. In fact, our Quest for Excellence Program rewards employees who continually find ways to streamline our business.



## Part 3: What Employers Can Do To Help Control Health Care Costs

Employers have an increasingly difficult job of providing quality health care benefits at competitive prices. The need to maximize value and contain costs has become critical, and below are a few methods that we feel can be most helpful with this initiative.

### Education

Staying informed and creating employee awareness is one of the best ways to help manage health care costs. It's no secret that informed consumers make better decisions. Several ways employers can help manage health care costs are to promote generic drug usage, further utilize mail order prescriptions (if applicable), and embrace wellness initiatives. It is critical that employees fully understand their benefit packages and are able to take advantage of such value-added features as discounted vitamins and health products (Members Choice<sup>SM</sup>), vision discounts, HealthAmerica and HealthAssurance's websites with a range of health information, and health club discounts to name just a few. Additionally, employers are encouraged to thoroughly evaluate health benefit packages and funding options to ensure the right balance of cost sharing exists with employees.

In the spirit of partnership, HealthAmerica and HealthAssurance will soon be providing our employer customers with a package of prewritten articles designed to help promote a cost-conscious mindset with employees. Through our employer newsletter, *Managed Care Focus*, we strive to keep employers informed, and our member newsletter, *Living Well*, also provides a great deal of education for our members. In addition, our newly redesigned website can be used as a resource for health information (WebMD<sup>®</sup>, online health links) and benefit information (online searchable formulary, generic drug use, pharmacy questions/answers).

### Legislation

Impacting legislation involves a united effort. On behalf of our customers, HealthAmerica and HealthAssurance consistently take a stand against bills that would cause health care costs to increase drastically. However, the support of local employers who also share our concerns can play a key role in the lobbying process. To directly affect negative

health care legislation from passing, employers can make a difference by voicing concerns to local, state, and federal legislators.

### **Collaboration**

HealthAmerica and HealthAssurance believe that successful employee health benefit programs require a collaborative approach. We make every attempt to understand our customers' businesses so that we can work to provide value-added services on a regular basis. Each of our employer customers is assigned an account representative who is available to assist our customers in the administration of their company's health benefits program. But, to get the most out of any health benefits program, employers should frequently evaluate internal health benefit cost drivers.

In conjunction with employer evaluation, HealthAmerica and HealthAssurance will assist in the following manner:

1) regular account representative meetings to discuss cost-saving options; 2) ongoing correspondence explaining cost trend issues, and 3) quarterly letters from our president addressing additional health care cost savings and cost-saving "partnering" opportunities.

### **Participation**

There are numerous health care issues that affect our customers both directly and indirectly. Rural hospital contracting, redundancy of a region's services, mandated health benefits, and physician collective bargaining are only a few of the issues that could have a direct impact on employers' ability to provide affordable, quality health care. Voicing concerns to local, state, and federal constituencies will ensure that employer opinions and points of view are represented in the health care decision-making processes.



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