

May 12, 2011

VIA EMAIL

Dear Health Advisory Council Member:

I am writing to provide information regarding the recent rate factor filing by Blue Cross & Blue Shield of Rhode Island (BCBSRI), including background on why the requested rate increase is necessary at this time.

As required by the Office of the Health Insurance Commissioner, all health insurers filed their 2012 rate factors for small and large groups on May 10th. Because healthcare costs as well as the costs of doing business in Rhode Island continue to rise, our filing reflects an increase in our 2012 rates.

At BCBSRI, we fully realize that a rate increase may be difficult to bear. But sufficient premium revenue is necessary for BCBSRI to remain financially stable as we continue to pursue long-term solutions to this problem—solutions that will help provide all Rhode Islanders with access to the affordable, high-quality healthcare they deserve.

Healthcare costs are rising, but premium rates have not kept pace.

We all know too well the astounding growth of healthcare costs; hospital reimbursements alone increased nearly 25 percentage points more than inflation from 2007 to 2010. However, premium rates have not kept pace with healthcare costs. As a result, BCBSRI had to dip into reserves to pay our members' medical claims last year. In aggregate, BCBSRI paid more than \$1.4 billion for medical care received by our members last year.

We recently reported \$14 million in losses for 2010, in addition to a loss of \$100 million in 2009, and we continue to experience financial strain. BCBSRI's reserves have dropped to only about 15% of premium revenue—well below the regional reserves benchmark of 20%. This jeopardizes our ability to pay member claims in the case of a catastrophic event such as a flu epidemic or a hurricane.

Using reserves helped BCBSRI temporarily sustain the last two years of premium deficiencies, but this is not a viable long-term solution. Having sufficient reserve levels is crucial to ensuring our ongoing ability to protect our members and helping to improve affordability in our state.

Our rate increase factors are about 2% less than projected 2012 costs.

Our rate filing reflects our growing concern about the affordability of healthcare for our members and employers. We voluntarily filed for an average increase of 10.5%, which is about 2% less than our projected 2012 costs. We recognize that this deficiency will require additional cost reductions, and we are taking immediate steps to achieve savings.

We're undertaking a number of significant initiatives to moderate costs and transform the local healthcare delivery system.

In 2010, we looked for opportunities to reduce both medical and administrative expenses without impacting quality of care and customer service. The vast majority of healthcare costs, about 85%, are directly related to medical expenses. We successfully reduced medical claims costs by \$25 million in 2010 and are striving to achieve a total \$63 million reduction in costs by the end of 2011 through the following efforts:

- In 2010, we rolled out a new formulary that encourages the use of high-quality but lower cost generic or over-the-counter medications. This is a safe, effective way to lower the cost of care without reducing quality. It is projected to save nearly \$22 million by the end of 2011.
- We made significant changes in the way we pay hospitals, introducing innovative new contract arrangements that reward hospitals for meeting agreed-upon quality standards and operational efficiencies. These efforts are designed to continuously improve patient care, moderate healthcare costs, and have a positive impact on hospital finances.
- For doctors, we rolled out new compensation and care models that focus on quality of care and patient outcomes instead of treatment volume. As part of that effort, we signed patient-centered medical home agreements with more than 25% of the state's primary care physicians last year, an effort that will ultimately improve care for more than 100,000 members.

We also successfully reduced our administrative expenses by \$15 million last year through a series of efforts that included downsizing our workforce, reducing benefits for employees, and renegotiating vendor contracts. We are looking to reduce administrative expenses by a total of \$35 million by the end of 2011.

We need to make high-quality, affordable healthcare a reality.

The high cost of healthcare continues to challenge individuals, businesses, and governments in our state, which has been particularly hard hit by the recession. We pledge to continue working with you to find a way to provide all Rhode Islanders with access to the high-quality healthcare they deserve.

Sincerely,



James E. Purcell
President and CEO