

The **Bottom Line** on your **Premium Dollar**

Straight Talk About Healthcare Costs



What's Driving the Cost of Healthcare Today and What PacificSource is Doing About It

As an employer, you're undoubtedly concerned about the rising cost of healthcare. Every year it becomes more difficult to provide your employees with a comprehensive benefit package. Where do your premium dollars go? Why are costs rising so rapidly? What's being done to address these issues? We hope this publication will help answer those questions.

When your health insurance premium arrives at PacificSource each month, very little of it stays here. Our not-for-profit status and our focus on efficiency ensure that your premium dollar serves its primary purpose—assistance with your healthcare expenses.

- About 87 cents of each dollar is issued to healthcare providers to pay for our members' claims, including prescription drugs, hospital and other facility costs, and fees for doctors and other medical professionals. PacificSource pays an average of \$8 million in claims each week—in 2008, our total claims costs were \$422 million.

- Another 1 cent of every premium dollar pays our state and federal taxes and mandatory contributions to state medical insurance pools.
- About 11 cents of each dollar reflects our administrative costs. These costs include our operating costs and the sales commissions we pay to independent insurance agents who work with our customers. Also included are the costs of complying with government laws and regulations, such as filing and reporting requirements
- The balance of your premium—approximately 1 cent of every dollar—is set aside as a small reserve. This amount allows us to grow, invest, and reserve funds to pay claims in more difficult years.

Why Does Health Insurance Cost So Much?

Health insurance premium rates are based on forecasts of what claims and other costs will be for the coming year. From 1993 to 2004, the total cost of healthcare in the United States doubled.

The following information from a 2008 report by PricewaterhouseCoopers, entitled "The Factors Fueling Rising Healthcare Costs," details the major factors driving healthcare costs.



87 cents
Claim Payments

Where Your Healthcare Premium Dollar Goes



1 cent
Taxes & State
Insurance Pools



11 cents
Administrative
Costs



1 cent
Reserves

continued on reverse



Healthcare Cost Drivers

- 46%: General inflation.
- 13%: Broader networks and provider consolidation. Although consumers enjoy the choice that a broad provider network brings, such networks tend to reduce competition. Hospital mergers can have the same effect.
- 8%: More expensive technologies. Rapid technological advancements produce new, more effective diagnostic tools and courses of treatment—at new, more expensive costs.
- 8%: New treatments. New imaging technologies and drugs for existing serious illnesses are available, as well as “lifestyle” drugs for conditions that were once not considered illnesses.
- 5%: More intensive diagnostic testing. Providers may order tests and treatments more aggressively as they attempt to “cover all the bases.”
- 8%: Cost shifting from public providers and the uninsured to private payers. Medicaid hospital payments to hospitals have not kept up with rising costs.
- 8%: Aging. Technological and pharmaceutical advancements are helping to extend the length and quality of life, but that means more medical care and more cost.
- 5%: Lifestyle choices. Personal challenges, including obesity, smoking, drug abuse, and inactivity, have contributed to an increase in the use of health services.



What is PacificSource Doing to Address These issues?

We certainly don't have all the answers to the problem of rising healthcare costs, but we are every bit as concerned as you are. The issue doesn't just affect us as a business—it touches us as healthcare consumers and as fellow members of your community.

While most of the healthcare cost drivers are beyond our direct control as an insurer, we are constantly working to impact these areas wherever possible.

- We are active in the legislative arena, advocating for fiscally responsible government policies that will ultimately provide everyone with better access to medically necessary healthcare.
- We partner with healthcare professionals and facilities to negotiate the most competitive reimbursement rates possible.
- Employers can count on our assistance to help set up workplace wellness programs.
- Our internal audit system and technology solutions combat fraud and abuse, and we diligently investigate any suspicious claims.
- Our administrative expenses remain among the lowest of any of our competitors because of our commitment to process and quality improvement.

At PacificSource, we will always remain committed to providing you with the highest value for your premium dollar. We are still one of the few companies whose phones are answered by live employees. We will continue to cut costs wherever we can without compromising our ability to deliver the exceptional customer service you've come to expect.

Need More Information?

If you need more information about healthcare costs, or any of our products or services, please contact your PacificSource Sales Representative.



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