



Blue Cross Blue Shield of North Dakota

North Dakota Health Care: A Challenging State of Affairs For Providers and Insurers

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Director of Government Relations
Blue Cross Blue Shield of ND
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Today's Discussion

- ✓ **Evolution of BCBSND**
- ✓ **Health Insurance Premiums**
- ✓ **Financial State**
- ✓ **Health Insurance Reserves**
- ✓ **Immediate Challenges**



Evolution of BCBSND

- Created in 1929
- Blue Cross
 - Justin Ford Kimbal
 - 1,300 teachers in Dallas
 - Baylor University Hospital
- Blue Shield
 - Pacific Northwest
 - Lumber & mining camps





Evolution of BCBSND

- On March 22, 1940 Blue Cross began with a staff of 3
- Blue Shield began in 1946.
- Combined enrollment of 15,000.
- 1964 – first computer system installed.
- 1966 – BCBSND began administering Medicare Part A & B.
- 1970 - Enrollment reaches 300,000.





Evolution of BCBSND

- 1980's – BCBSND expands its contracts for Medicare A & B
- 1986 – Blue Cross and Blue Shield merge into one company.





Evolution of BCBSND

- 1988 – 4,161,000 claims processed – an 86% increase in 8 years.
- 1989 – Customer Service responds to 471,000 calls and letters – a 485% increase in 15 years.
- 1990's – Enrollment reaches 375,000 and pays \$300 million in claims each year.





Evolution of BCBSND

- 1995 – BlueCard program emerges
- 1998 – Corporate structure changes to become a non-profit mutual insurance company
- Began processing Medicare claims for 8 additional states





Evolution of BCBSND

- Noridian Mutual began offering products in Minnesota
- Noridian Administrative Services formed
- Employs 1900 people
- Pays out more than \$770 million in claims!
- Remodeling project to consolidate operations.





Evolution of BCBSND

- 2008 - BCBSND pays out more than **\$1 Billion** in claims!
- Nationwide enrollment surpasses **100 Million members**
- 2009 – **CoreLink** established
- Board terminates CEO
- Establishes 7 point plan for Board's oversight strategy
- New CEO to start by 9/1/09
- **Paul von Ebers**



**BlueCross BlueShield
Association**





Board of Directors

- As a nonprofit mutual, we are owned by our members.
- Member (consumer) Majority on the Board
 - 13 Board members – 8 member directors and 5 provider directors
 - 3-year terms
 - Can serve up to 4 terms
 - Terms are staggered- 1/3 expire each year.



Board of Directors

- Provider Directors
 - Jodi Atkinson, St. Andrew's Health Center, Bottineau
 - Dr. Julie Blehm, MeritCare Hospital, Fargo
 - Dr. Robert Grossman, Retired Physician
 - Gary Miller, St. Alexius, Bismarck
 - Currently Vacant Position



Board of Directors

- Member Directors
 - Laura Carley, Industrial Builders
 - Dennis Elbert, PhD, U.N.D.
 - Richard Espeland, Consultant
 - Roger Kenner, Kenner Seed & Ranch
 - Robert Lamp, Association Services, Inc.
 - Mark Sanford, EdD, Retired GF Public Schools
 - Ann McConn, Alerus Financial
 - Peter Zimmerman, Constant Angel, LLC



Nonprofit Mutual Tax Misconceptions

- Perception - Nonprofit mutuals do not pay taxes.
- Fact – Nonprofit mutuals pay significant taxes each year.



Nonprofit Mutual Tax Misconceptions

- **Real Estate Tax (Net):**
 - 2007 - \$281,143
 - 2008 - \$299,123
- **Premium Tax:**
 - 2007 - \$9,884,867
 - 2008 - \$10,554,855
 - Noridian pays premium taxes in lieu of State Income taxes. If Noridian were to pay state income tax rather than premium taxes, the tax amount paid would be significantly lower.
- **Sales and Use tax:**
 - Noridian pays sales and use tax at a rate of 6.5% (for purchases in Fargo, the amount will vary based on the city tax rate) on all purchases deemed taxable by the State.
- **Federal Income taxes:**
 - 2007 - \$655,997
 - 2008 - (\$455,331)
 - Noridian has a negative tax expense in 2008 do to a large number of items that are deductible for tax purposes but are not considered expenses for accounting purposes. For accounting purposes these payments would reduce liabilities or increase assets.
 - The numbers above for Federal income tax expense is not actually what was paid in taxes due to carryovers, carrybacks and adjustments for other items such as K-1 income we were unaware of until after the books were closed but which is still taxable in the current year.



Health Insurance Premiums- Where Do They All Go?



North Dakota Health Insurance Premiums

Comparison of 2008 Fully Insured Premiums

2008 PMPM

<u>State</u>	<u>AVG Prem</u>	<u>Rel to US</u>	<u>Rel to ND</u>
ND	\$288.82	89.5%	100.0%
MN	\$342.44	106.1%	118.6%
SD	\$305.65	94.7%	105.8%
MT	\$308.68	95.6%	106.9%

Data from the Dept of Health & Human Services – Medical Expenditure Panel Survey
Agency for Healthcare Research and Quality



The 2008 ND Premium Dollar



44.1%

Institutional - Hospitals and
other health care facilities

36.1%

Professional - Doctors and
other health care professionals

13.4%

Prescription drugs

-.7%

Reserves

7.1%

BCBSND
administrative
costs



Top 10 DRGs Utilized by BCBSND Membership

		Rural Membership: <u>Total Admits</u>	Admits to Rural <u>Hospital</u>	Admits to Urban <u>Hospital</u>
<u>DRG #</u>	<u>Description</u>			
1 391	Normal Newborn	780	78	702
2 373	Vaginal Delivery w/o complications	643	56	587
3 544	Major Joint & Limb Reattachment	289	0	289
4 359	Uterine & Adnexa Procedures	256	13	243
5 371	Cesarean Section w/o CC	241	33	208
6 430	Psychoses	205	2	203
7 89	Simple Pneumonia & Pleurisy	132	87	45
8 288	O.R. Proc for Obesity	121	0	121
9 558	Percutaneous Cardiovascular Procedu	100	0	100
10 167	Appendectomy w/o complications	87	13	74
500	Back & Neck Proc Exc Spinal Fusion	87	0	87
	<u>All Other</u>	<u>3,934</u>	<u>840</u>	<u>3,094</u>
	Total	6,875	1,122	5,753



The Rural Boost

25% additional reimbursement for outpatient services

Additional \$6,566,000 to Rural Providers

15% additional reimbursement for Mid-tier providers

Additional \$2,813,000 to Mid-tier Providers

- **Rural Criteria**

- Outpatient dollars paid of \$0 - \$3mm
- OP paid > 50% of total paid

- **Mid-tier Criteria**

- Outpatient dollars paid of \$3mm - \$7.5mm
- OP paid > 55% of total paid



Factors Affecting Rates

- Inflation/Cost Trend
- Utilization & Aging
- Medical Technology
- Leveraging of Deductible



Inflation

Inflation in claims costs
per member per month (PMPM)





Claims Trend

2009 expected claims trend

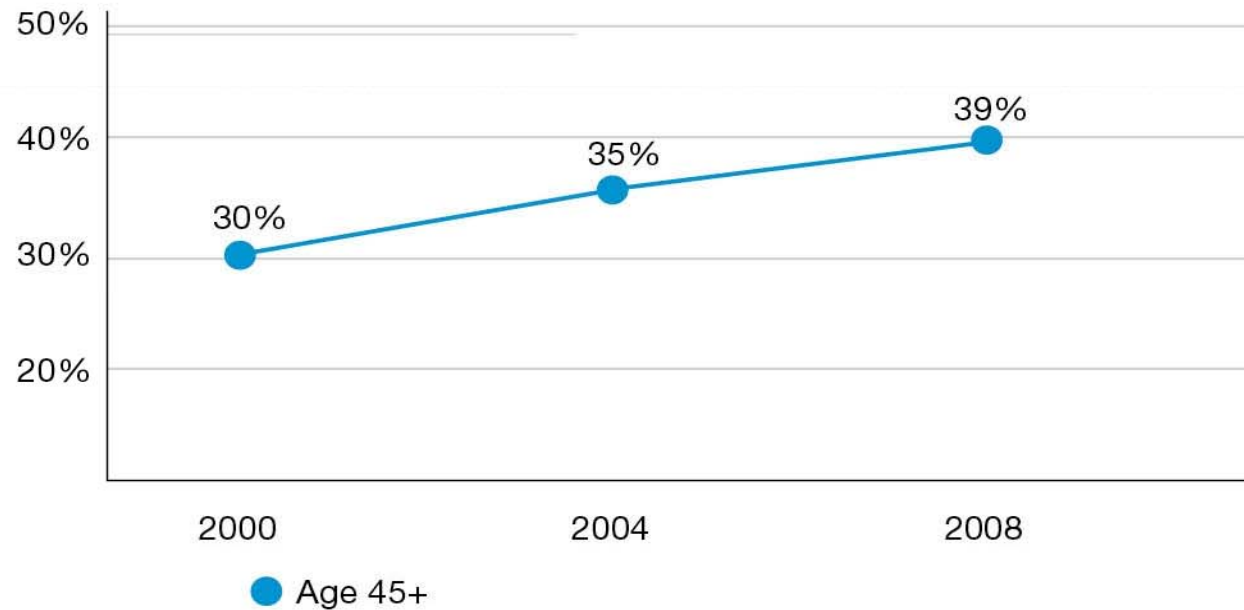
	Hospital/Medical	Prescription Drug
Total Trend	6.8%	5%
Composite Trend	6.5%	



Aging Population

Aging population

ND members 45 and older





Mega Claims

Mega claims

Fully insured claims (\$250,000+)

	2000	2004	2007	2008
\$250-499K	14	20	29	51
500-699	4	5	6	6
700-999	-	1	2	2
1,000-1,249	-	-	1	2
1,250-1,499	-	-	1	-
1,500 +	-	-	1	1
	18	26	40	62



Cost Control Efforts

- Case Management
- Utilization Management
- Disease Management
- Pharmacy Management
- Tobacco Cessation
- Wellness Programs





Financial State

The Financial State of ND Health Care





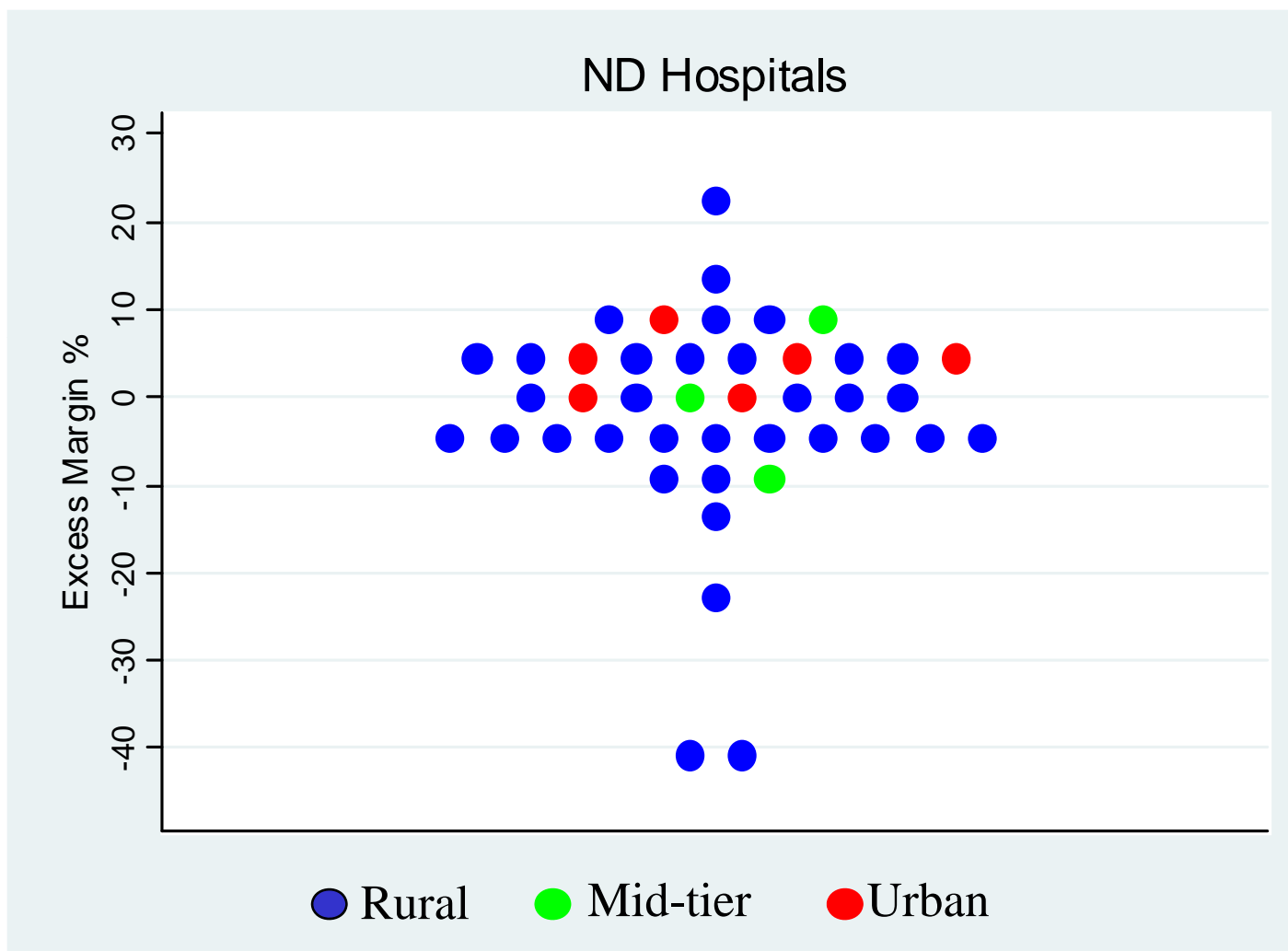
Source: ahd.com

Based on latest as submitted, unaudited cost report



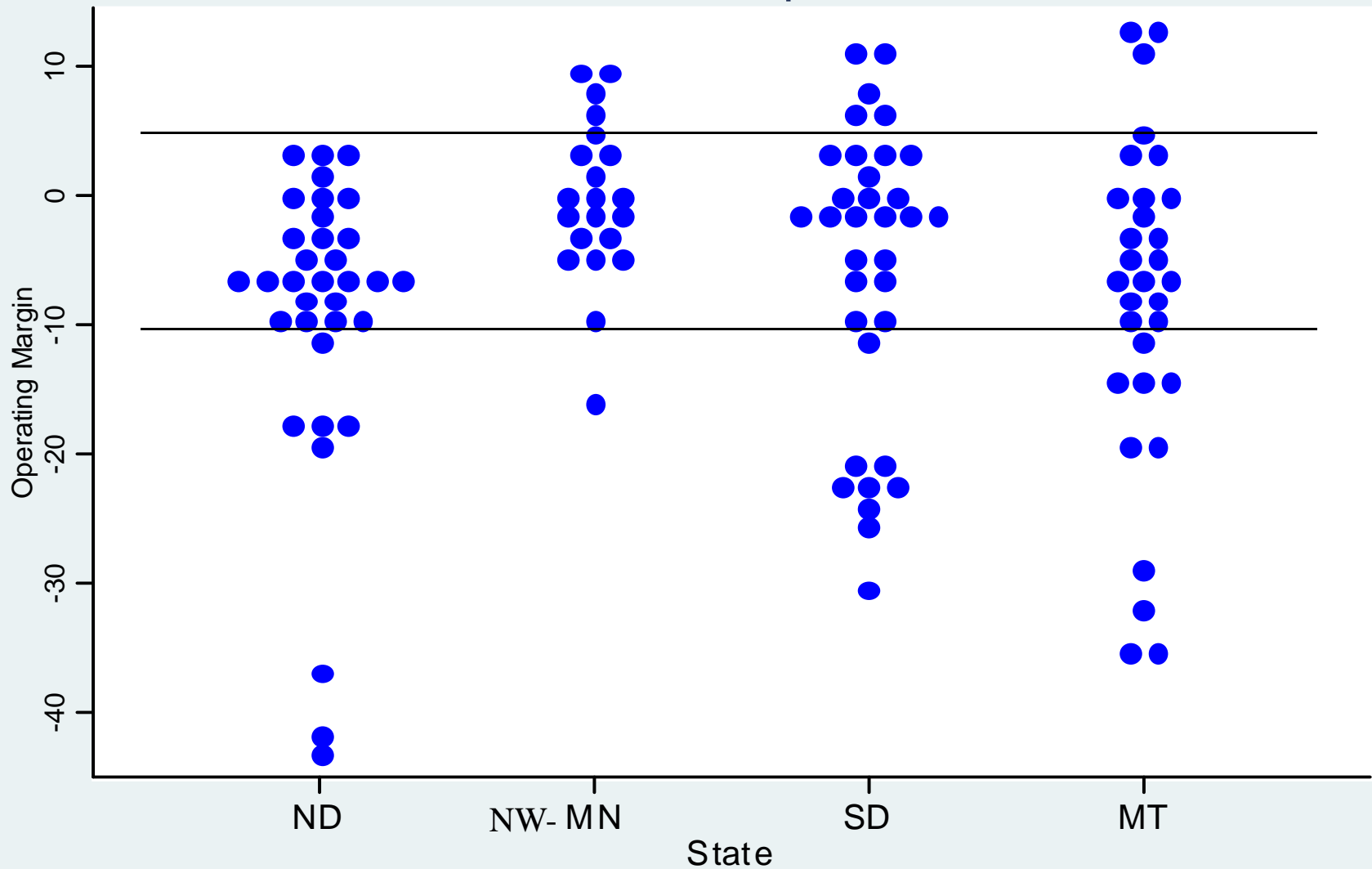
ND Hospital Excess Margin

Source: ahd.com



Based on latest as submitted, unaudited cost report

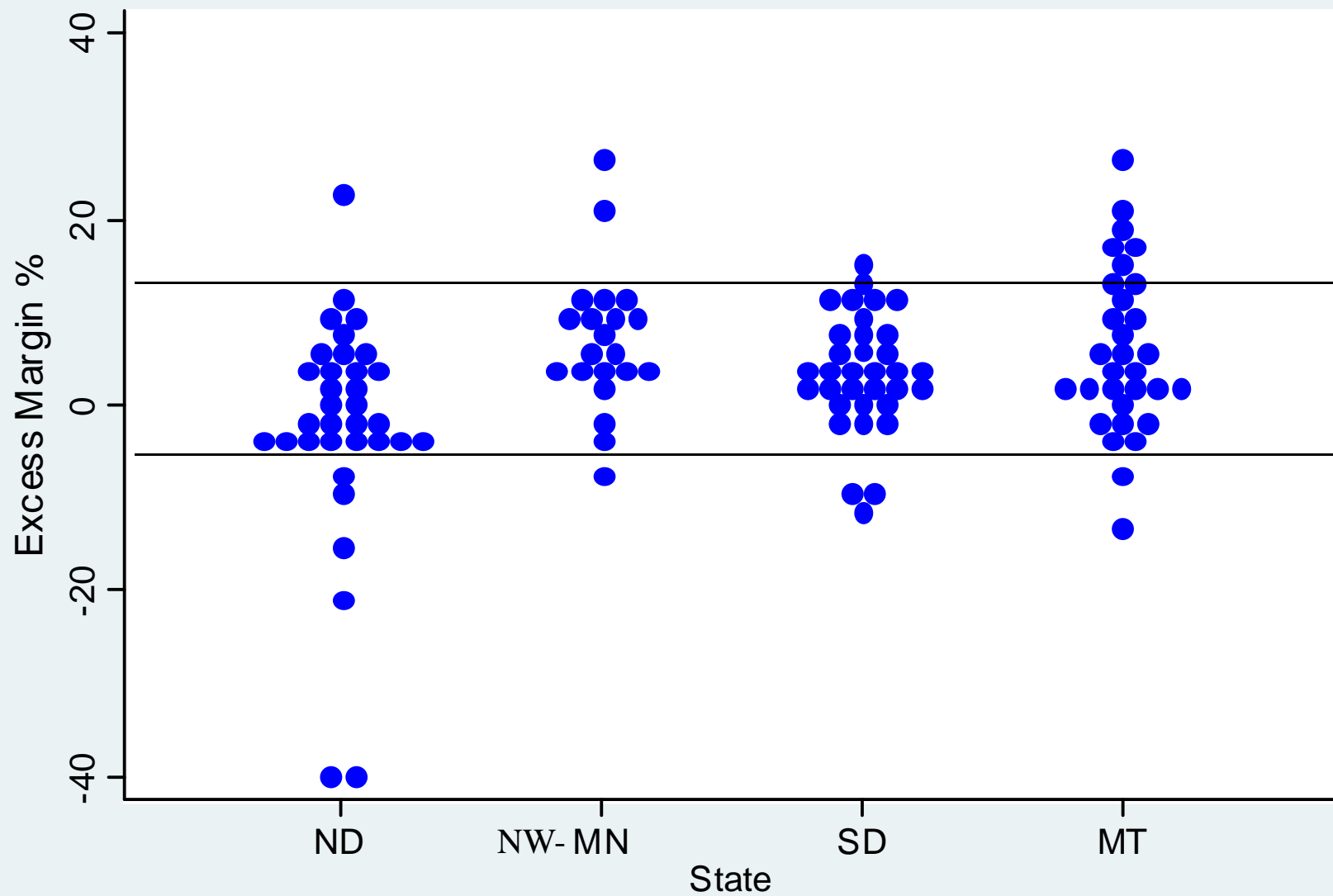
Rural Hospitals



Source: ahd.com

Based on latest as submitted, unaudited cost report

Rural Hospitals



Source: ahd.com

Based on latest as submitted, unaudited cost report



BCBSND Payer Mix Percentage

Source:

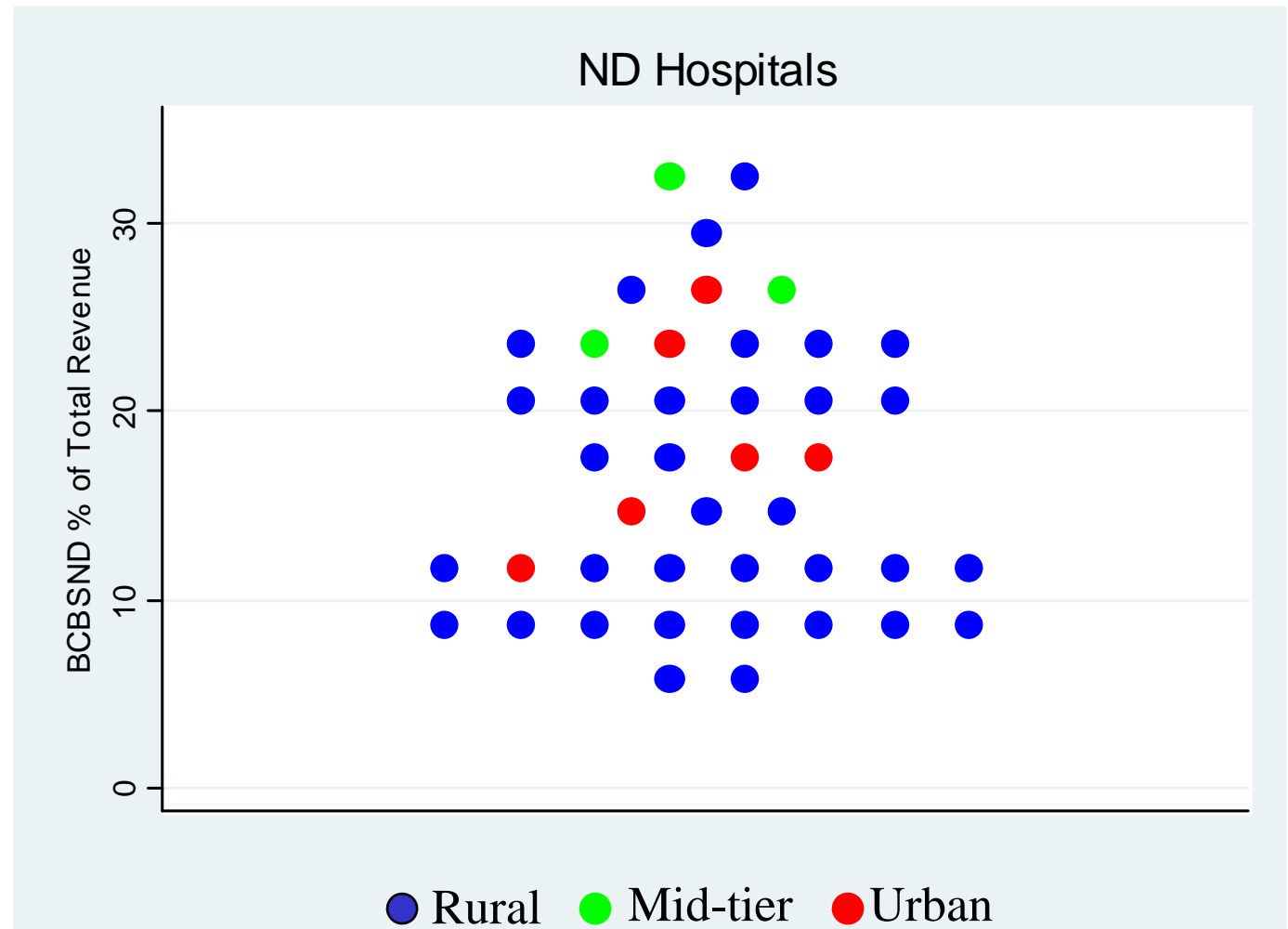
Patient Revenue:

AHD.com

American Hospital
Directory

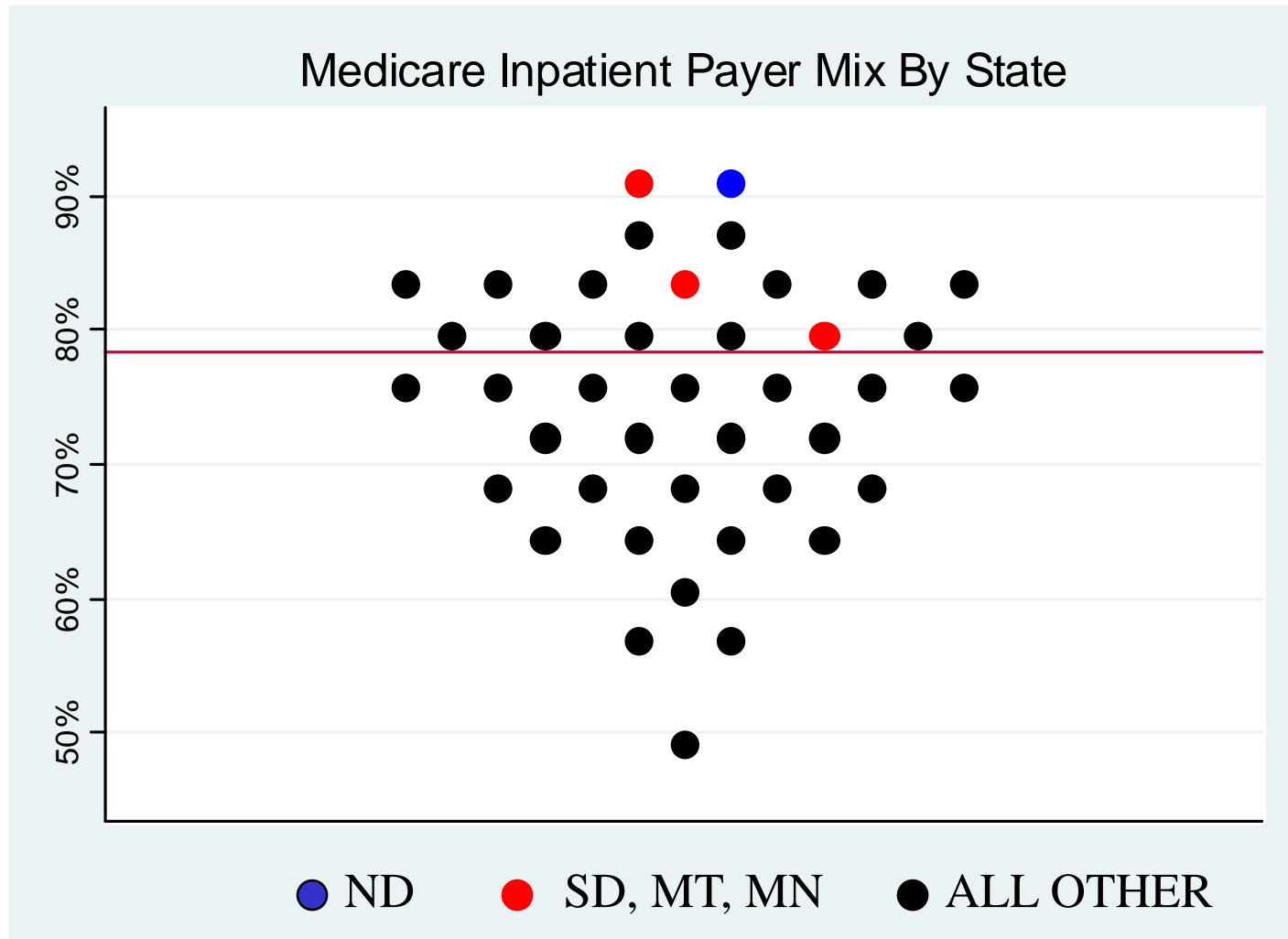
BCBSND Revenue:
2007 Claims Data

Note: Total revenue
is based on the latest
cost reporting year
and BCBSND
revenue is based on
2007 calendar year.





Medicare Payer Mix Percentage



Source: CAH Financial Indicators Report, August 2007, Flex Monitoring Team



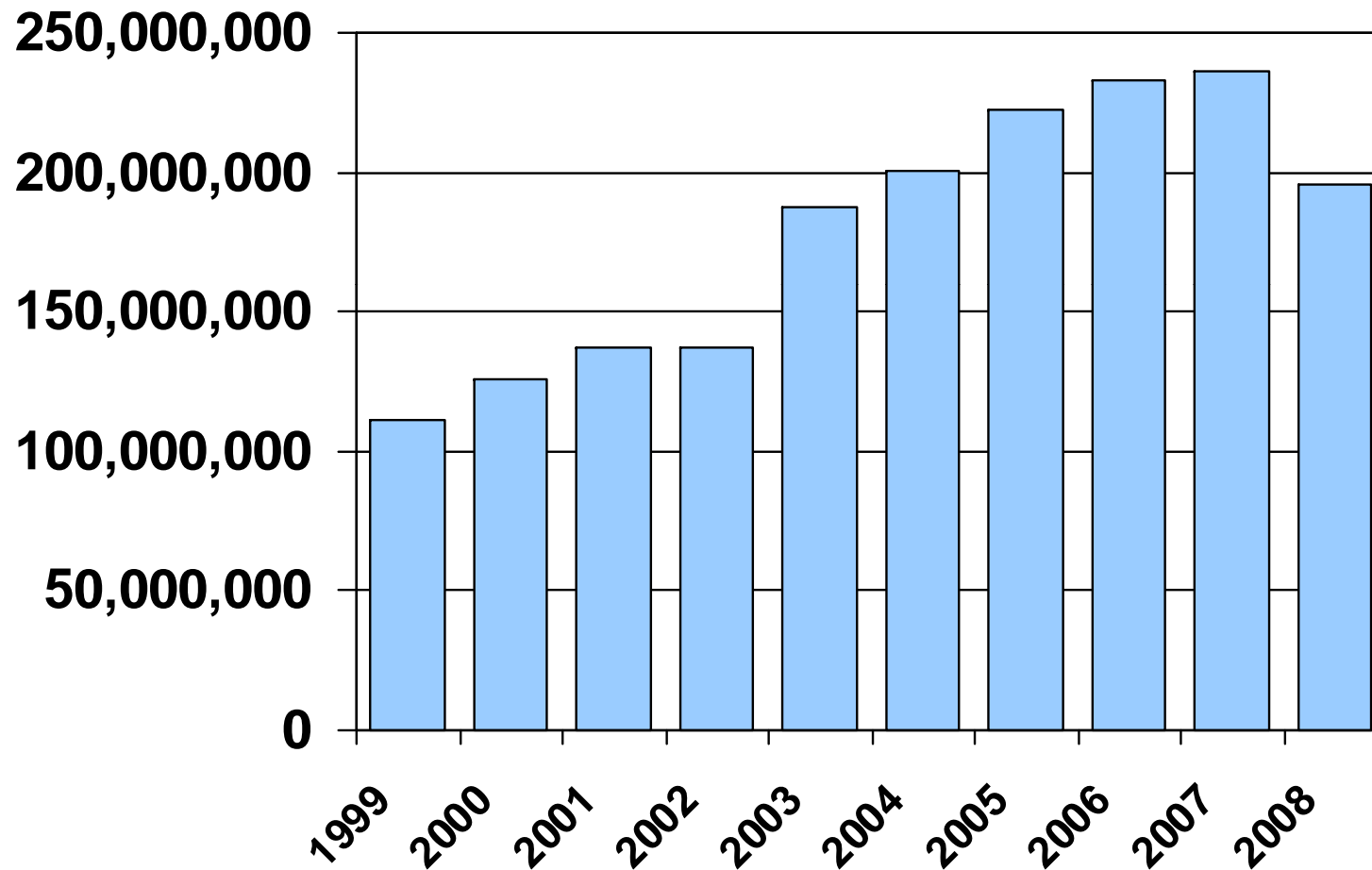
Source: CAH Financial Indicators Report, August 2007, Flex Monitoring Team



Health Insurance Reserves

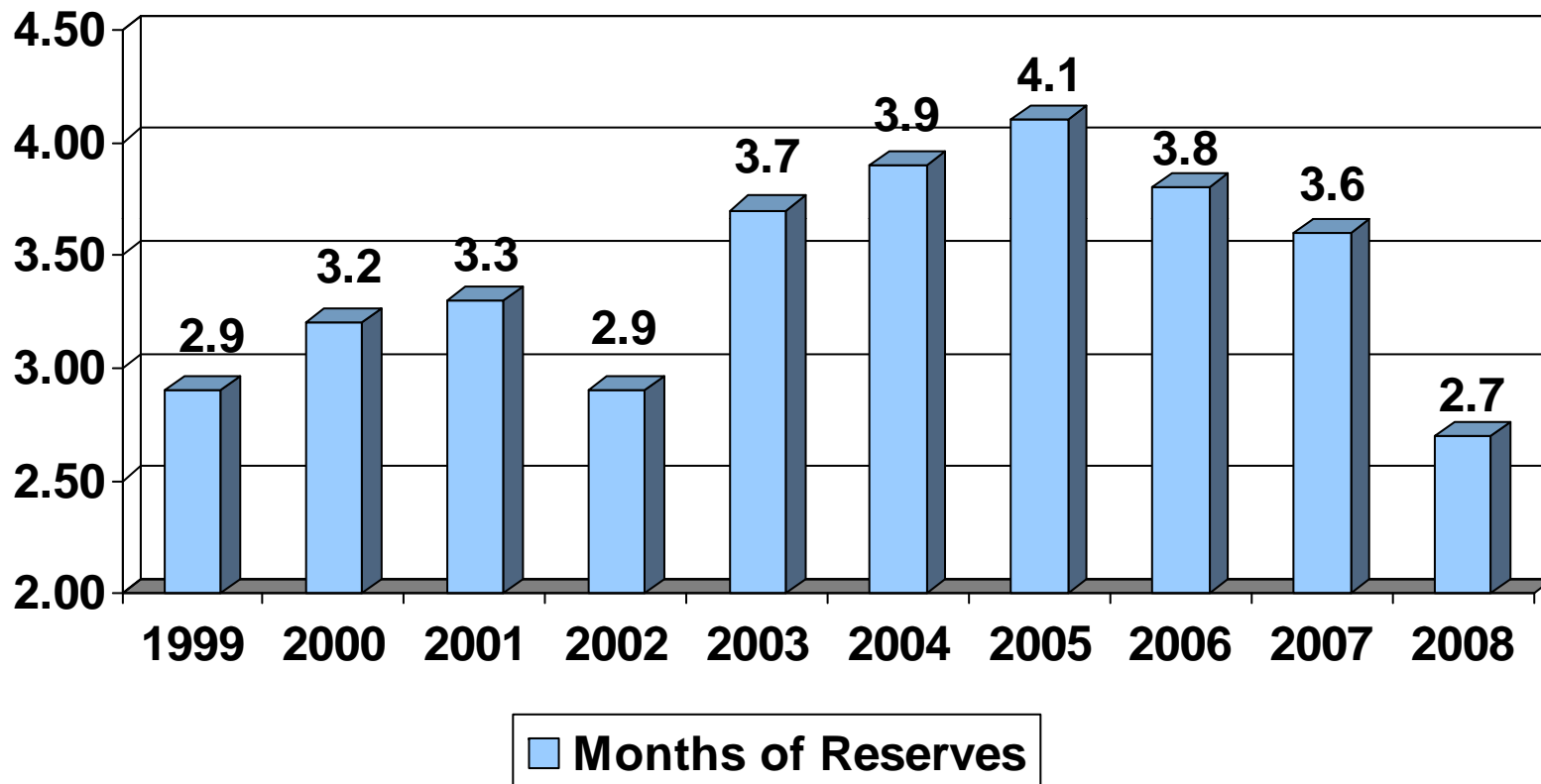


Reserves



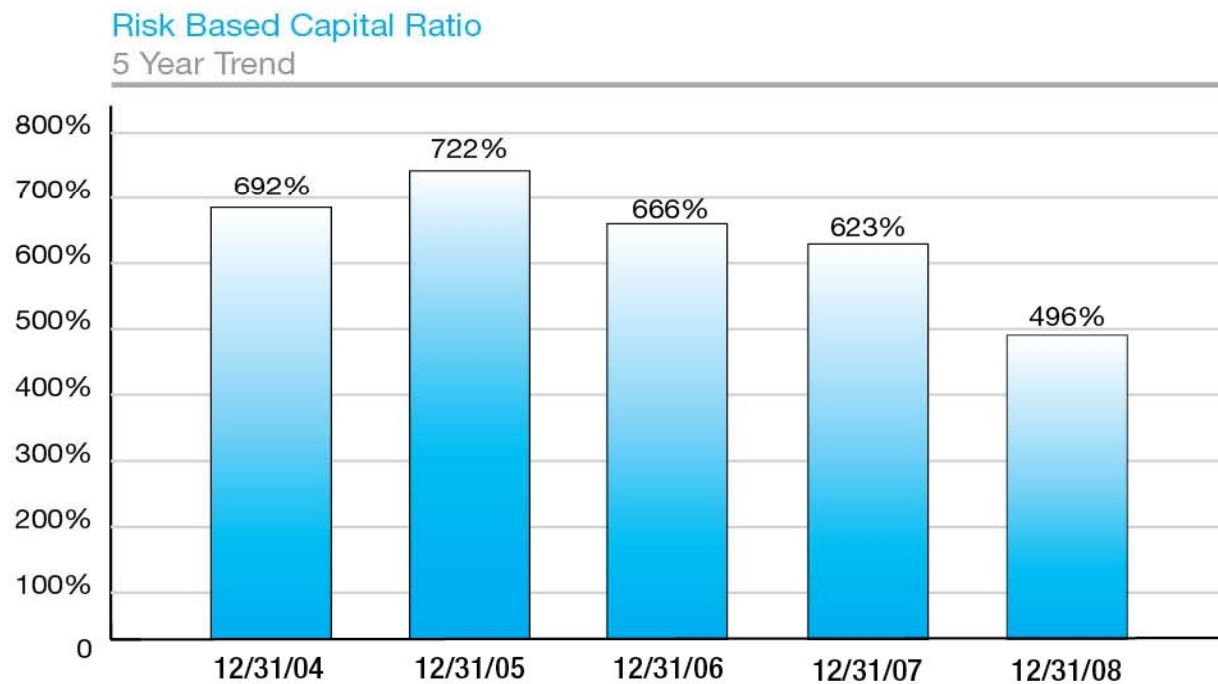


Months of Reserves



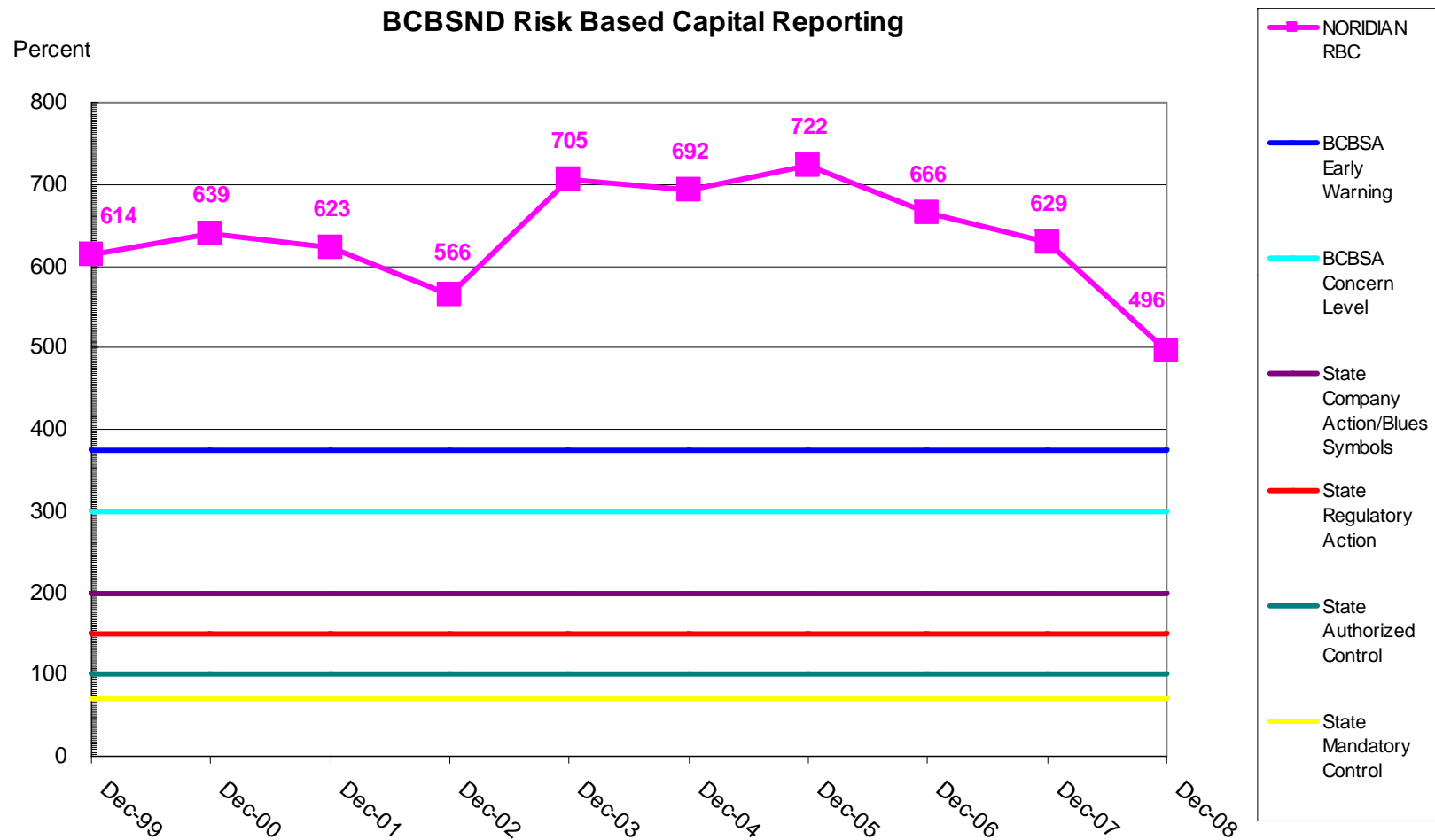


Risk Based Capital





RBC Reporting Levels





Immediate Challenges

Immediate Challenges to North Dakota Health Care

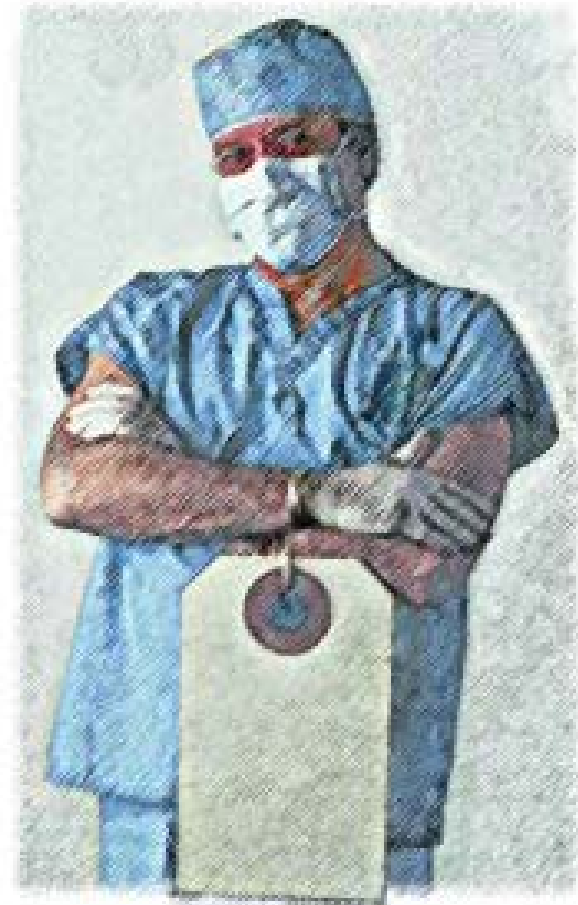




Immediate Challenges

1. An Underfunded State Health Care System

- 1. Low Medicare Payments**
- 2. Low Medicaid Payments**
- 3. Relatively low commercial payer payments**





Immediate Challenges

2. Health Care Reform

Public Insurance Option

- Estimated **Reduction** to North Dakota Providers
- If 1/3 of BCBSND members move to Medicare ----- **(\$131 Million)**
- If 1/2 of BCBSND members move to Medicare – **(\$197 Million)**



Immediate Challenges

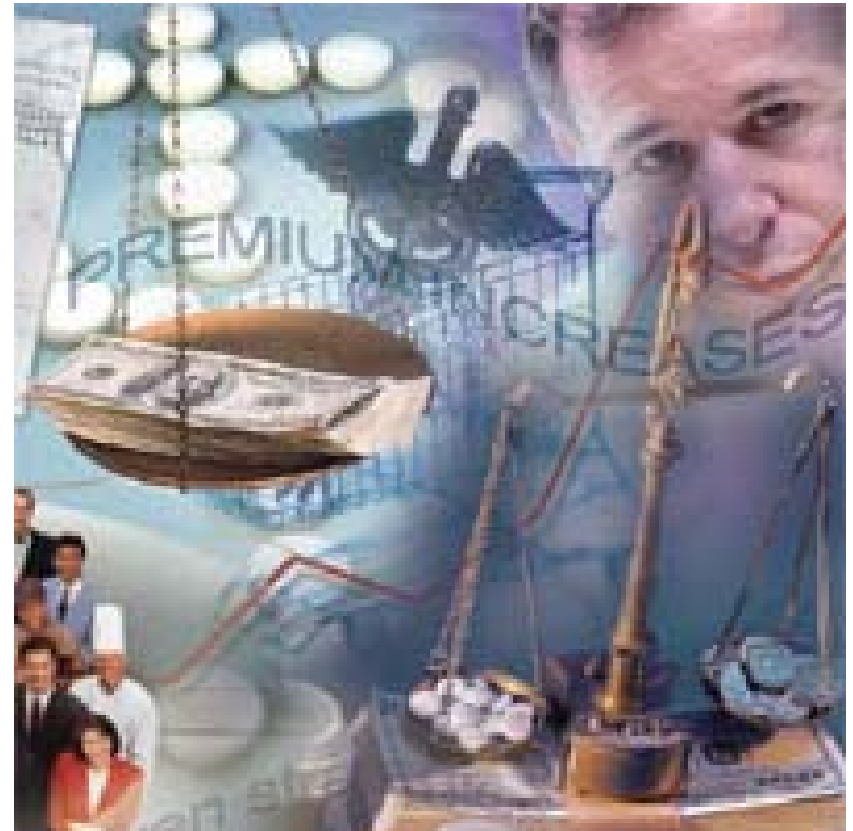
3. Balancing Affordability with Sustainability

Milliman Study
**BCBSND as a percent of
Comparison States**

Premiums ----- 83%

Reimbursement -- 81%

(does not include payments to
out of state providers)





Questions ????