

Healthcare Pricing Issues and Drivers 2020

By Mike Bertaut

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Blue Cross and Blue Shield of Louisiana is an independent licensee of the Blue Cross and Blue Shield Association and incorporated as Louisiana Health Service & Indemnity Company.

15 Years ago... Blue Cross 2004 Financials

Share of
Revenue

38%

34%

11% 17%



- 70%+ went directly to Hospitals, Physicians & Physicians Services.
- Drugs were 11% of the total spend.

All figures are estimates based on Blue Cross and Blue Shield of Louisiana actuarial, claims and membership data. Represents fully insured group and individual members of both Blue Cross and Blue Shield of Louisiana and HMO Louisiana, Inc. Includes the cost of prescription drugs administered in physician offices and for outpatient hospital care. Drug costs are net of all discounts and rebates. All other expenses include operating costs, commissions, taxes/fees and reserves.

Blue Cross 2014-2018: 5-Year Revenue

Over 5 years, we collected \$16.2B in risk premiums, broken out like this:

\$5.8B (36%)	\$3.7B (23%)	\$4.1B (25%)	\$2.6B (16%)
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- **Drugs are now 25% of the total spend, at the expense of physicians and their services.**
- **We MUST master the pharmacy product & business to be competitive.**

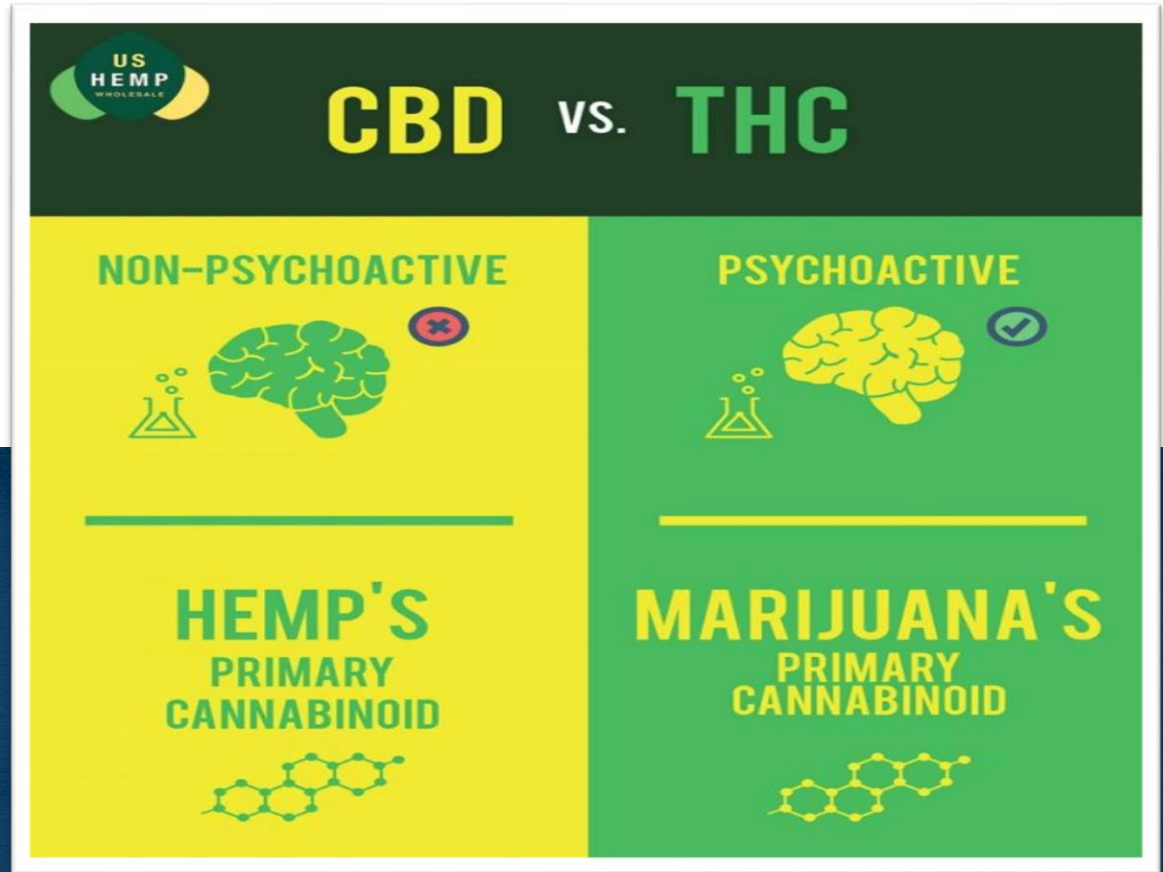
Estimated based on 2014,15, 16, 17 and unaudited 18 results.
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WEED!







OOPS! Wrong Drugs...
We'll talk about this
later

And NO! I don't have
samples!!!



US HEMP WHOLESALE

CBD vs. THC

NON-PSYCHOACTIVE	PSYCHOACTIVE
 	 
HEMP'S PRIMARY CANNABINOID	MARIJUANA'S PRIMARY CANNABINOID
	

Can you follow the drugs? No problem!

- **55% of Americans** regularly take a prescription drug.
- The average Louisianian **filled more than 16** prescriptions in 2018.



MANUFACTURER

WHOLESALER

PHARMACY

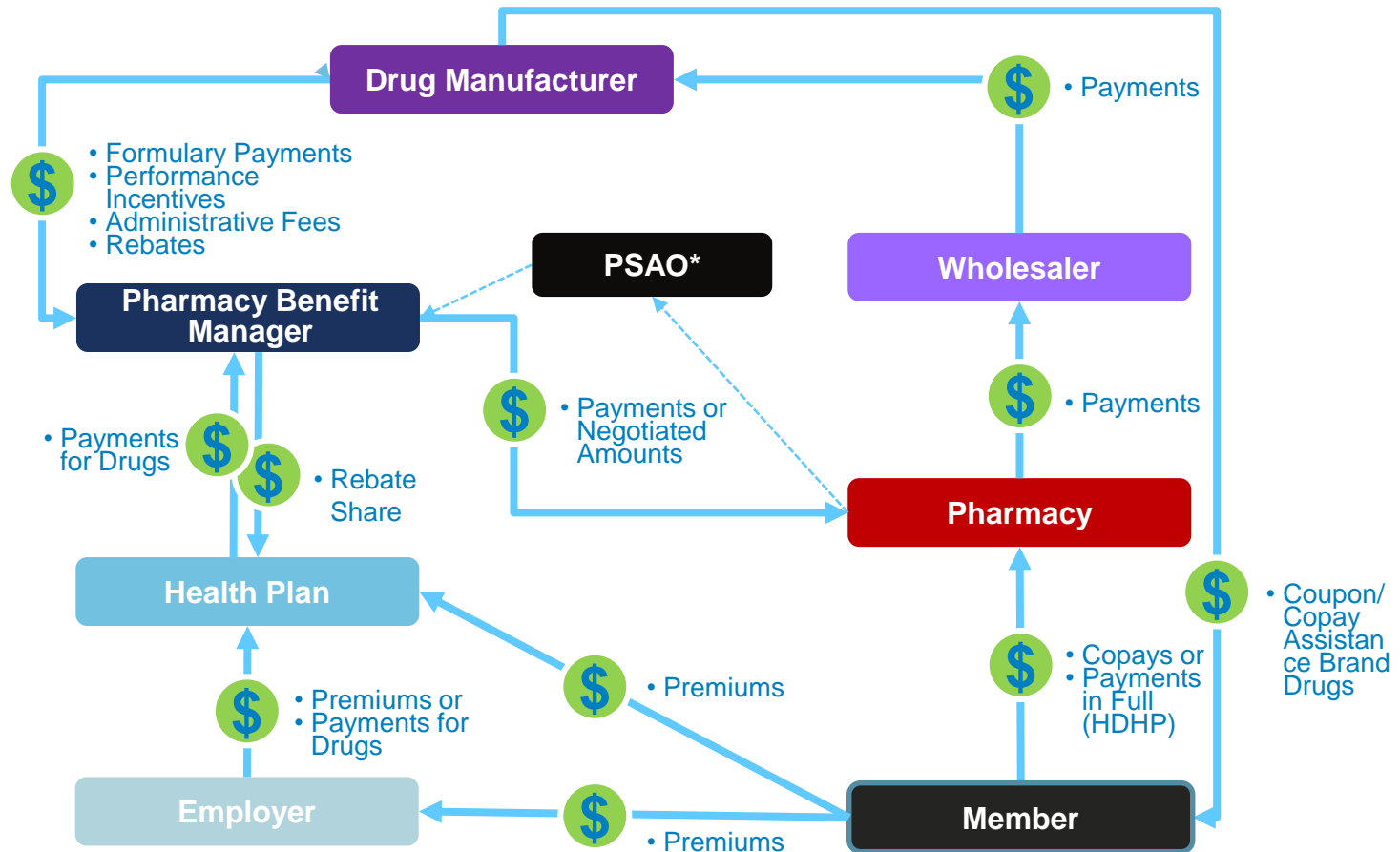
MEMBER

Can you follow the money?

Problem

... Complex because:

Insurance has to cover the drugs; and Members can't afford them.

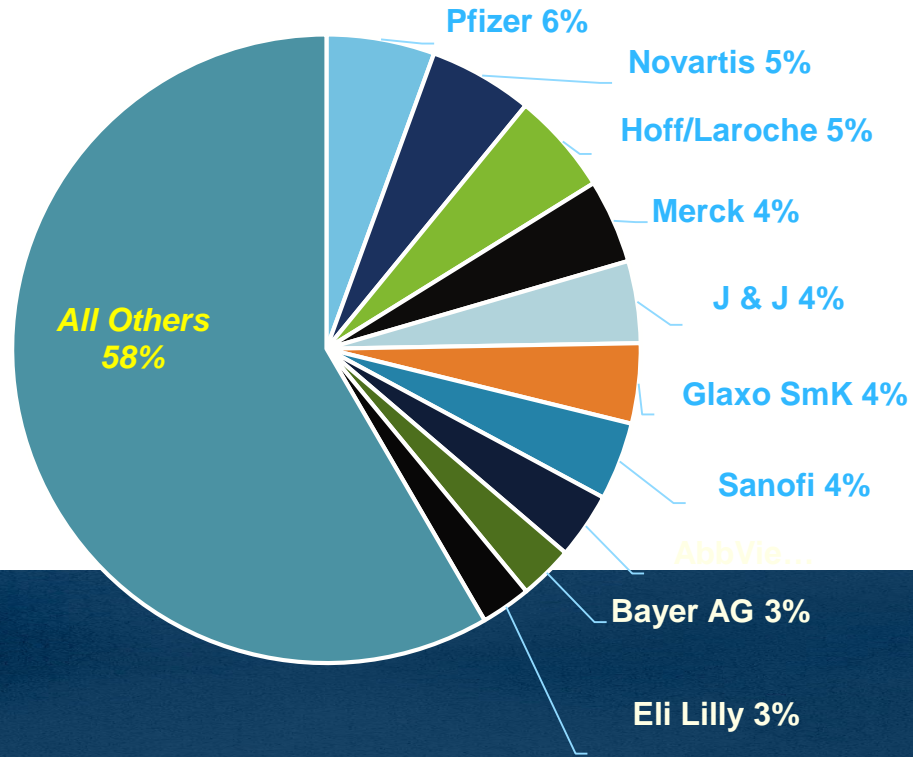


*Pharmacy Services Administration Organizations (PSAOs) use the power of a large network of small pharmacies for better leverage with PBMs.

The drug manufacturing market is huge and very diverse.

In 2018, 1 point of market share is worth **\$9.71B!**

Revenue
Samples:
 \$54B Pfizer
 \$52B Novartis
 \$51B Hoff/Lar
 \$42B Merck



Drug Market Share 2018

Guess how many different Drug Companies it takes to make a basic, compliant, Blue Cross Drug formulary?

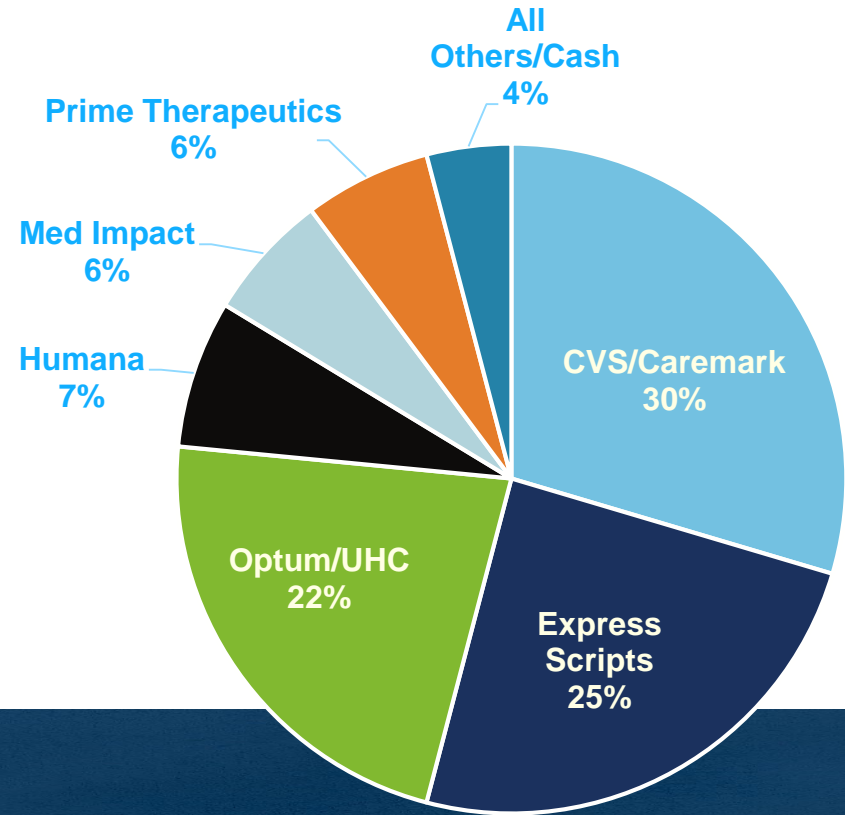
1,183 Different Companies!

Average cost to bring new a drug to market?

\$2.6 BILLION DOLLARS!!

Conversely, the PBM market is highly concentrated.

- Cigna has purchased Express Scripts.
- After current M/A activity, almost 80% of the market is controlled by 3 companies.
- 98+% of all prescriptions filled in the US in 2018 were handled by a PBM.



Share of Scripts Filled 2018

So, Why Are Drugs So Expensive?



Federal and state laws require insurance companies to pay for them.



It costs almost \$3B to develop a new drug today.



The value chain is so opaque.

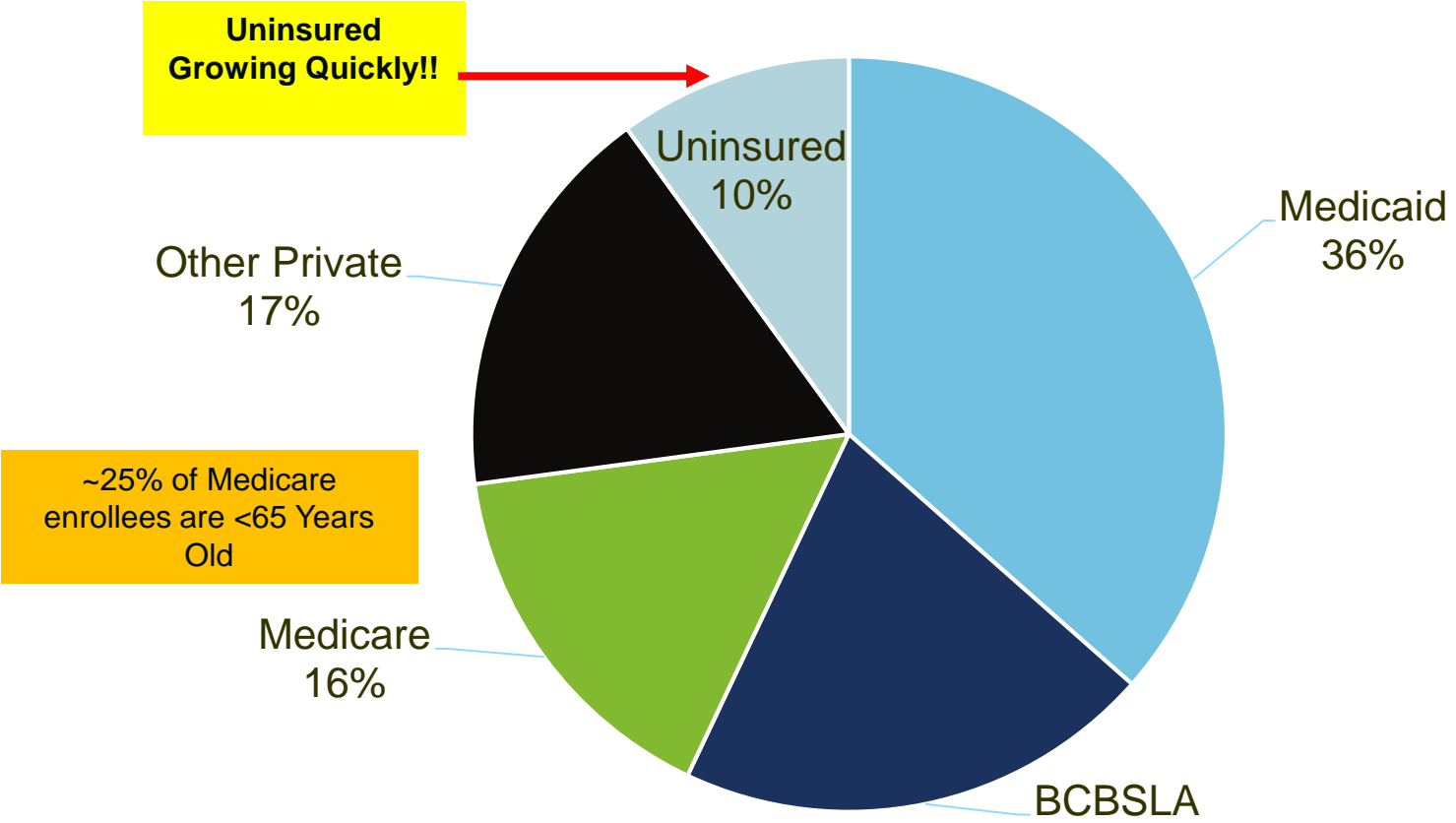


There is no limit to how much people expect their employers, government, or health insurance company to spend to improve or save their own lives.

Most countries “Single Payer” plans cover far fewer drugs at the pharmacy (or none at all, see Canada)

Who Are Louisiana's 3rd Party Payers?

Mike's Best Estimate 11/1/2019; 4.65m People total.



Uninsured Growing Quickly!!

~25% of Medicare enrollees are <65 Years Old

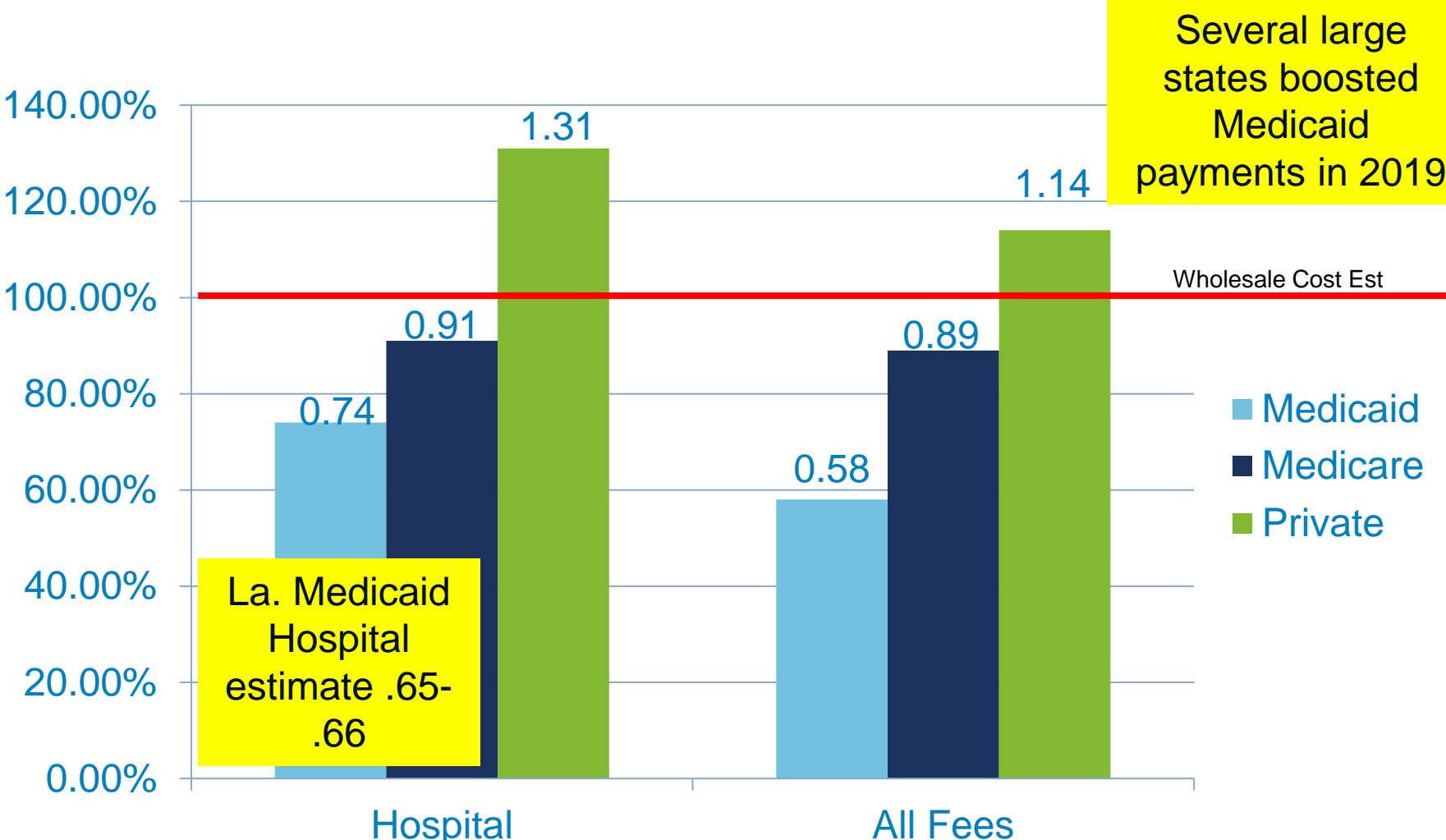
52% of Population have coverage through a Government Program, the highest % in the Nation!

Dual Eligibles split 50/50 Medicaid, Medicare
BCBSLA count does not include those living out of Louisiana as of Sept 2019

The New Eligibility Engine--LDH

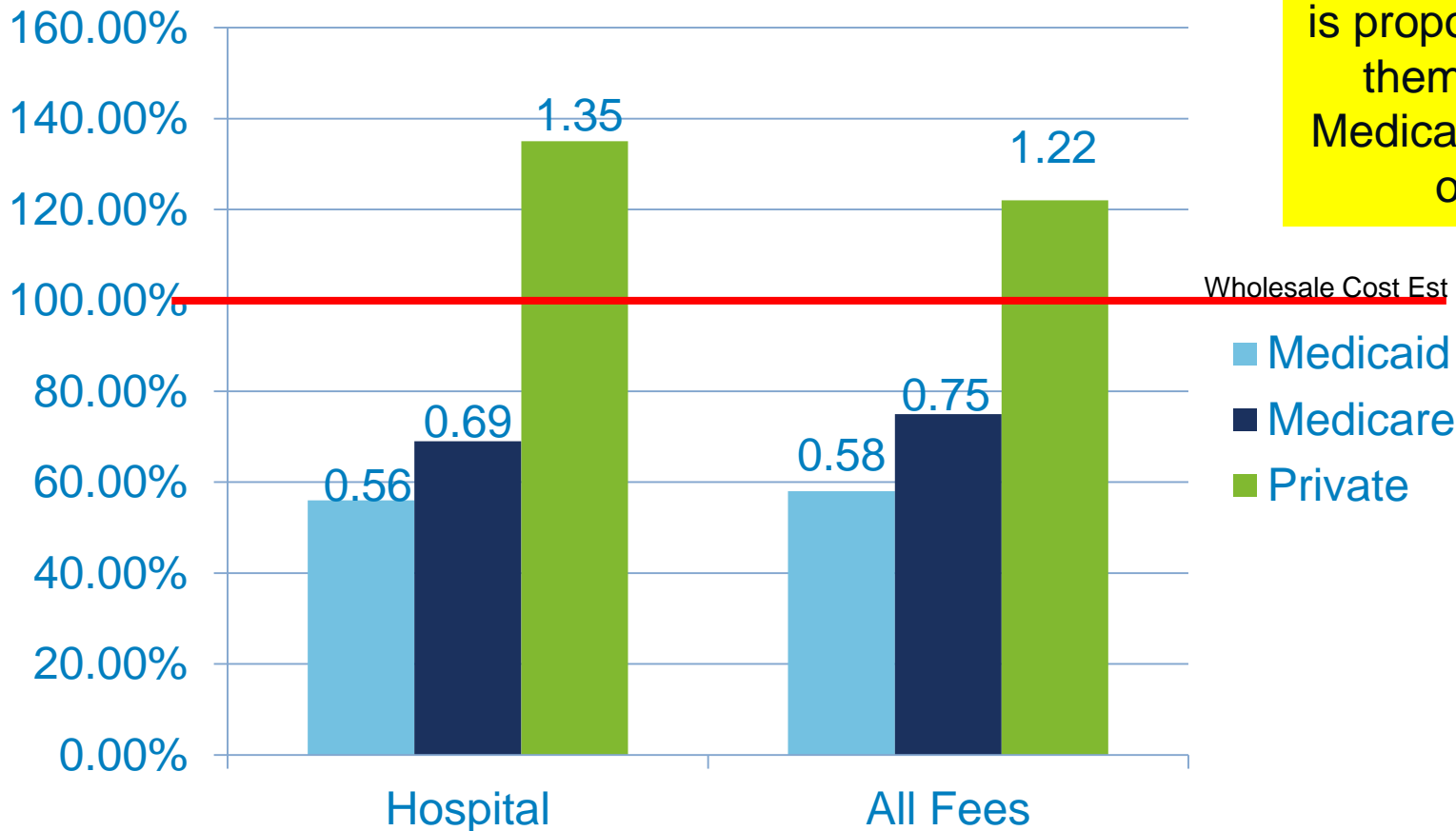
- Original Medicaid Expansion relied on lots of attestations.
- New high-tech enrollment system on line 1/1/2019.
- **Around 80,000 dis-enrolled, projecting 50,000 more in 2020 through July.**
- Testing at least quarterly for
 - Citizenship status
 - Place of Residence (must be in La.)
 - Income

Reimbursement Ratios: National ('12-'15)



<https://www.texmed.org/June16Journal/>; Milliman "Eve of PPACA"; Clemens and Gottlieb at the National Bureau of Economic Research 2014

Reimbursement Ratios: Colorado 2020



Colorado Hospitals need 143% of Medicare to BREAK EVEN on existing care. State is proposing paying them 155% of Medicare for public option.

<https://www.modernhealthcare.com/payment/colorado-unveils-hospital-rates-its-public-option-plan? 00>

Paying for Medicare For All*

- An ADDITIONAL 32% payroll tax on individuals (above existing taxes); or
- 25% Additional income tax across the board; or
- 42% Additional Value Added Tax (VAT) on all transactions; or
- An additional \$12,000 annual premium (above current) per person; or
- A 100% increase in all corporate and individual income taxes; or
- An 80% reduction in all non-healthcare federal spending (like SS, military, transportation, housing, etc)
- Allowing the national debt, currently \$22T, to increase to \$44T over 10 years
- Some combination of the above.

Do All the Solutions Lie with the Federal Government?



“After two years in Washington, I often long for the sincerity and realism of Hollywood.”

*Tennessee Senator & Actor
Fred Dalton Thompson
(b1942-d2015)*

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I'd love to hear from you!



The
"Halloween
Crew" 2002

Change is a constant!



2019