Healthcare Pricing Issues and Drivers 2020

By Mike Bertaut
Healthcare Economist, Exchange Coordinator
Spring 2020
### 15 Years ago... Blue Cross 2004 Financials

<table>
<thead>
<tr>
<th>Share of Revenue</th>
<th>38%</th>
<th>34%</th>
<th>11%</th>
<th>17%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital</td>
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<tr>
<td>Physician Services</td>
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<tr>
<td>Drugs</td>
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<tr>
<td>Everything Else!</td>
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- 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.
Over 5 years, we collected $16.2B in risk premiums, broken out like this:

- **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.

### Blue Cross 2014-2018: 5-Year Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>2014</td>
<td>$5.8B</td>
<td>(36%)</td>
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<tr>
<td>2015</td>
<td>$3.7B</td>
<td>(23%)</td>
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<tr>
<td>2016</td>
<td>$4.1B</td>
<td>(25%)</td>
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<tr>
<td>2017</td>
<td>$2.6B</td>
<td>(16%)</td>
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Estimated based on 2014,15,16,17 and unaudited 18 results.
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.
OOPS! Wrong Drugs.... We’ll talk about this later

And NO! I don’t have samples!!!
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.
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!

Drug Market Share 2018

- Pfizer 6%
- Novartis 5%
- Hoff/Laroche 5%
- Merck 4%
- J & J 4%
- Glaxo SmK 4%
- Sanofi 4%
- AbbVie
- Bayer AG 3%
- Eli Lilly 3%
- All Others 58%

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

Average cost to bring new a drug to market?
$2.6 BILLION DOLLARS!!

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

1,183 Different Companies!
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.
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.

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

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.
Who Are Louisiana’s 3rd Party Payers?
Mike’s Best Estimate 11/1/2019; 4.65m People total.

- **Uninsured:** Growing Quickly!!
- **Medicaid:** 36%
- **BCBSLA:** 21%
- **Other Private:** 17%
- **Medicare:** 16%
- **Uninsured:** 10%

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
Several large states boosted Medicaid payments in 2019

La. Medicaid Hospital estimate .65-.66

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.

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.

*Committee for a Responsible Federal Budget, 2019
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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WHY WE ARE HERE

PROHIBITION OR PRESCRIPTION?
The Status of Medical Marijuana And Health Insurance

MAKING A DIFFERENCE
FOR PRESCRIPTION DRUG SAFETY

SO, WHAT'S A SHORT-TERM LIMITED DURATION Health Insurance Policy?

MOVING LOUISIANA'S HEALTH FORWARD:
Tackling chronic conditions and social determinants of health
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I’d love to hear from you!

Change is a constant!

The “Halloween Crew” 2002

2019