

Baptist Health System

A Brief Profile of Health Insurance in the State of Alabama

Profile of Alabama

❖ 4.4 Million Residents

13% over the age of 65

16% live in Poverty

❖ Alabamians suffer from poor health status

Alabama Ranks 48th in age adjusted death rates for all causes

	<u>Alabama Death Rate per Thousand</u>	<u>National Death Rate per Thousand</u>
Heart Disease	310	270
Cancer	213	203
Diabetes	30	25
Stroke	72	62

This poor health status results in high utilization rates for physician visits and hospital admissions

Alabama BC/BS is a Significant Force in Alabama

- ❖ **Alabama BC/BS is both a seller (of insurance to customers) and a buyer (of hospital and physician services)**
- ❖ **Alabama BC/BS is the most dominant health care company in the State of Alabama**
- ❖ **Alabama BC/BS also contracts with the Federal Government as the Medicare Fiscal Intermediary**

Alabama BC/BS Has Significant Market Share

	<u>Estimated Number</u>	<u>Percent of Total</u>
Medicare enrollment	695,195	15.5%
Alabama BC/BS	1,192,462	26.6%
Medicaid eligibles	802,215	17.9%
HMO enrollees	254,260	5.7%
Other insurance	250,000	5.6%
Uninsured	1,292,448	28.8%
Total Population	4,486,580	100%

Source: State of Alabama Dept of Insurance; Centers for Medicare and Medicaid Services; Henry J. Kaiser Foundation

Alabama BC/BS Has Significant Market Share

“Alabama Blue Cross and Blue Shield has an 87.4% share of the small group insurance market.”

Source: My Business Magazine – April 2003

Blue Cross Margins In Alabama

Statewide:

- ❖ **48% of Hospitals Reported Negative IP Operating Margins on BC Business**
 - **18% of Hospitals Reported Negative IP Operating Margins in Excess of 9%**
- ❖ **23% of Hospitals are Barely Breaking Even, With IP Margins of 3% or less**

Alabama BC/BS Payment Rates for Predominant CPT Codes as a Percent of Medicare Payment Rates

<u>CPT Code</u>	<u>2003 BC Rate As Percent of Medicare Rate</u>
E/M New Expanded	87%
E/M New Pt - Detailed	86%
E/M New Comprehensive	84%
E/M New Pt - Comp	99%
Minimal Visit – Est Pt	145%
Simple Visit – Est Pt	105%
Expanded Visit – Est Pt	96%
Detailed Visit – Est Pt	79%
Comprehensive – Est Pt	82%

E/M = Evaluate and Manage

Baptist Health System Is:

❖ The State's Largest Health Care Provider

- 10 hospitals provide services to 1.8 million residents
- 1,700 Physicians are members of our medical staffs
- 6 Nursing Homes
- 1 Continuing Care Retirement Center
- 10 Fitness Centers
- 9,500 employees statewide, 5th largest employer in Birmingham
- A recent benchmarking project performed by VHA found that BHS' total cost per case mix adjusted discharge was below the 25th percentile of other health systems

Baptist Health System Has Been Adversely Affected by BC/BS Losses

BHS Has Suffered Losses from BC/BS Reimbursement Over the Past Five Years

	<u>System Overall</u>	<u>BC/BS</u>
2002	\$0.1 million	(\$1.0 million)
2001	(\$21.5 million)	(\$3.7 million)
2000	(\$4.0 million)	(\$2.2 million)
1999	(\$1.1 million)	(\$8.4 million)
1998	\$0.5 million	(\$5.9 million)

Baptist Health System Is Heavily Dependent Upon BC/BS

	<u>Percent of Encounters</u>	<u>Percent of Net Revenue</u>
Medicare	31%	44%
Alabama BC/BS	31%	26%
HMO's	14%	17%
Medicaid	9%	6%
Self Pay	9%	1%
Other	6%	6%

Percent of AL BC/BS Revenue Significant Physician Groups

	<u>BC/BS Percent</u>
Cardiology Group (30+ members)	35.9%
Radiology Group (30+ members)	31.8%
Internal Medicine Group (30+ members)	33.0%

BHS Cannot Generate or Attract Adequate Capital Without Improved Revenues

FY 2002

Total Net Revenues	\$697 million
Estimated Capital Needs	\$70 million
Net Income From Operations	\$114,000

BHS Is Having to Consider Several Tragic Strategic Alternatives for its Future

- ❖ **Merger**
- ❖ **Sale to Proprietary**
- ❖ **Attract a Capital Partner**
- ❖ **Stay the Course**
 - **Eliminate Services**
 - **Not implement needed state-of-the-art technology**
 - **Postpone Capital Improvements**

BHS Is Requesting the Department of Justice to:

- ❖ **Be Vigilant in Monitoring Health Plans**
- ❖ **Foster an Environment of Competition in the Alabama Health Insurance Market**