Joint FTC/DOJ Hearings on Health Care Competition Law and Policy

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Arkansas Blue Cross and Blue Shield

Arkansas Blue Cross and Blue Shield

A Full Line Health Plan / Insurance Carrier

- Founded in 1948
- Not for profit mutual insurance company
- Tax payer (state and federal)
- Large employer
  - 2200 employees
  - 7 regional full service offices
- Confined service area to state boundaries
- Largest health insurer in Arkansas
- Comprehensive portfolio of products

Arkansas Blue Cross and Blue Shield Competition Drivers

- **Focus on meeting customer needs/expectations**
- **Delivery of consistent "service quality" to customer base**
- **Deployment of competitive technologies and products specific to the needs of the Arkansas market**
- **Relatively large provider networks (PPO and HMO) sized to the health service needs of customer base**

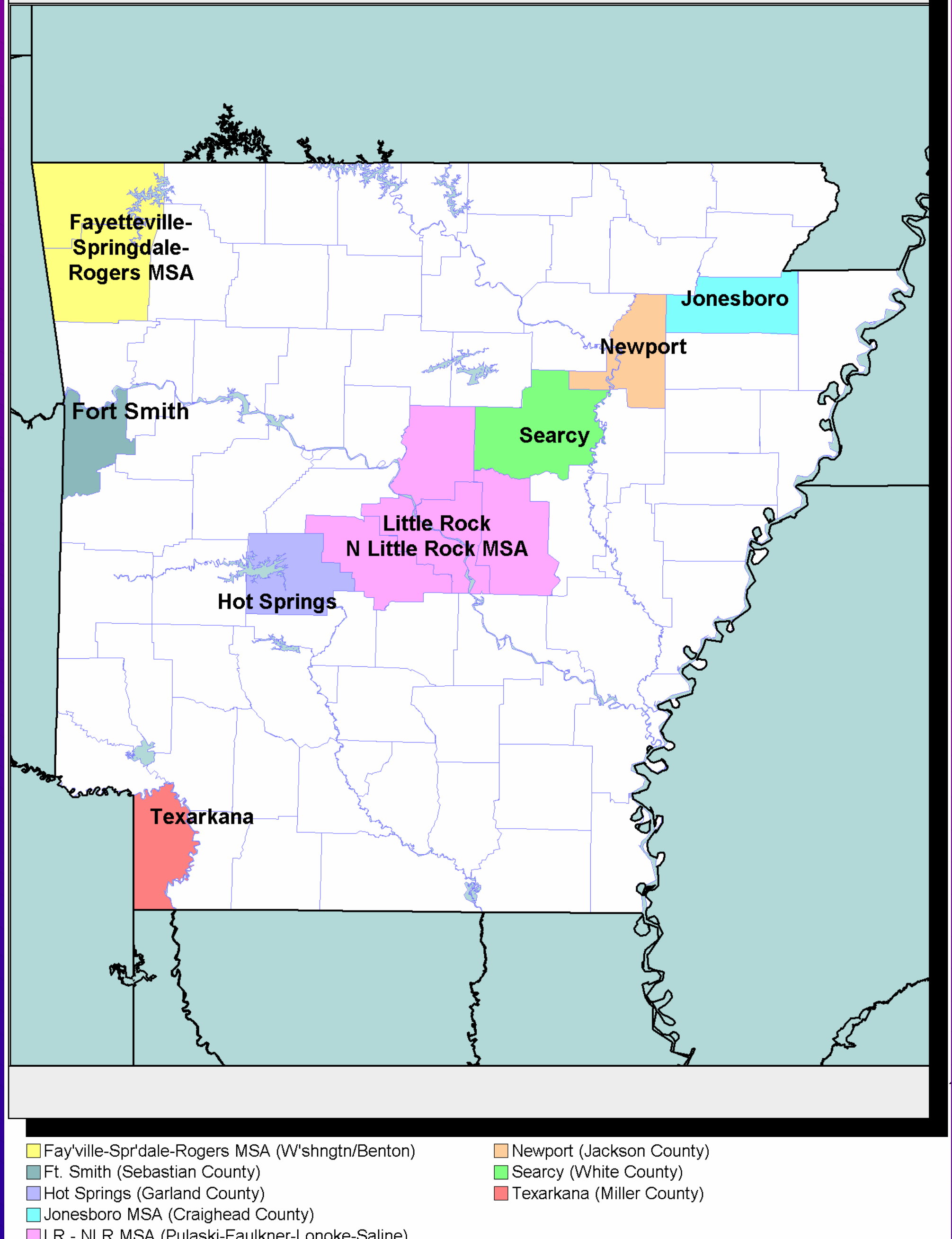
Characteristics of Arkansas and Little Rock Market

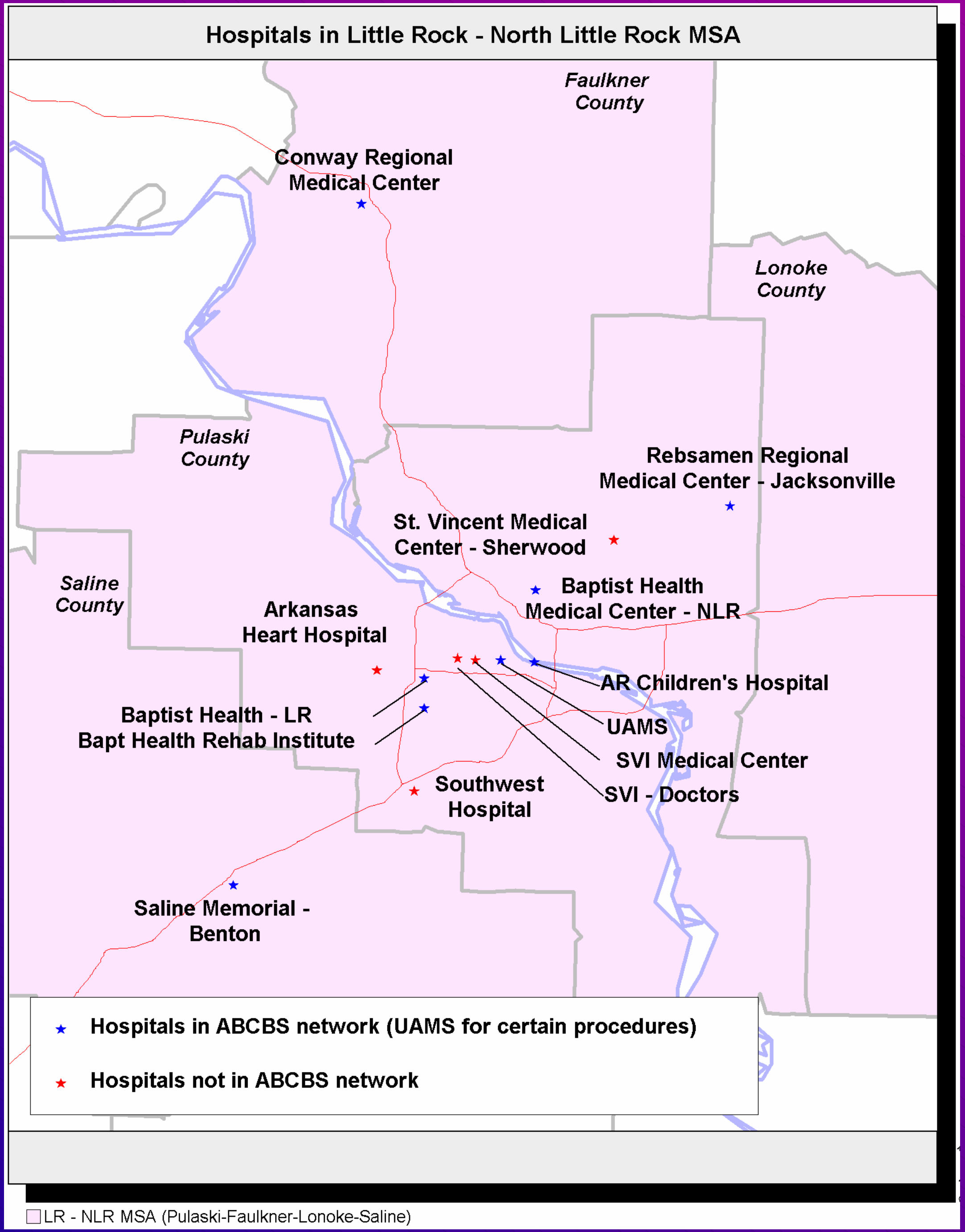
- Population (small, rural, poor)
  - 2.6 million statewide
  - 590,000 Little Rock MSA
- Unhealthy population
  - High “disease burden”
  - High per capita health care costs
- Uninsured rates
  - 16% Statewide
  - 11% Little Rock MSA
- Medicaid
  - 19.1% Statewide
  - 16% Little Rock MSA
- Over age 65 and disabled population
  - 16% Statewide
  - 12.9% Little Rock MSA

Health Delivery System
Acute Care 2003

	Statewide	*MSA*
Hospitals	82	13
Beds	11,337	2,828
Physicians		
– Generalists	1369	410
– Specialists	3394	1397

Local Markets/MSAs With More Than One Hospital




Hospitals in Little Rock - North Little Rock MSA
Faulkner County
Conway Regional Medical Center
Lonoke County
Pulaski County
Rebsamen Regional Medical Center - Jacksonville
St. Vincent Medical Center - Sherwood
Saline County
Baptist Health Medical Center - NLR
Arkansas Heart Hospital
AR Children's Hospital
Baptist Health - LR
Bapt Health Rehab Institute
UAMS
SVI Medical Center
Southwest Hospital
SVI - Doctors
Saline Memorial - Benton
Hospitals in ABCBS network (UAMS for certain procedures)
Hospitals not in ABCBS network
LR - NLR MSA (Pulaski-Faulkner-Lonoke-Saline)

Discussion Issues

- Market Share
- Competition
- Business Model

Profile of Arkansas Blue Cross and Blue Shield/ Health Advantage Market Share

	State	MSA
Total Population	2,692,090	590,024
Arkansas Blue Cross/ Health Advantage	533,869	124,780
Self-Insured	207,001	22,778
Total Enrollment*	740,870*	147,558
Market Share	27.5%	25%
Market Share (without Self-Funded)	19.8%	21%

*Excludes:
(1) MediPak
(2) Out of State Membership

Breakdown of Product Types:

	% HMO	% PPO	% Indemnity
Little Rock MSA	36%	54%	10%
Statewide	19%	71%	10%

"Nature and Mix of Competition" State of Arkansas and Little Rock Market

- Traditional multi-line carriers who compete in virtually every product line and rely heavily upon scale economies and standardized product offerings as a competitive edge

- Specialty or "niche" competitors who differentiate themselves via some combination of lower price, greater product flexibility, highly individualized customer service, or unique provider affiliations/sponsorships

Inventory of "Mix of Competitors" Little Rock Market

- "Big three" national players (Aetna, Cigna, United)
- Two large local health plans (QualChoice and Arkansas Blue Cross/Health Advantage)
- 64 in-state and out-of-state TPA's (45-50% self-funded market)
- Seven statewide "provider rental networks"
- Two "unbranded" out-of-state Blue Cross competitors (Unicare and Health Link)

Inventory of "Mix of Competitors" Little Rock Market

- 168 licensed insurance companies marketing health policies in Arkansas with over $100 million in annual premiums (multi-state basis)
- Largest private employer in state – self-administers own claims and uses rental network
- Second largest private employer in state – maintains own provider network via direct contracts and uses TPA services of national health carrier
- Recent entry of new consumer directed health care competitors (Definity Health & Lumenos)

Profile of Arkansas Blue Cross and Blue Shield/ Health Advantage Basic Business Model

Little Rock MSA

HMO (Health Advantage)

- **Ownership (equity based):**
  - Arkansas Blue Cross 50%
  - Baptist Health 25%
  - 240 Little Rock area physicians 25%
- **Type - IPA network model with no ownership of physician practices**

Profile of Arkansas Blue Cross and Blue Shield/ Health Advantage Basic Business Model

Little Rock MSA

HMO (Health Advantage)

- **Major Strengths:**
  - Focus on high quality coordination of health care delivery and administrative cost efficiencies
  - Achievement of continuity and predictability for equity partners relative to long-term capital investments in new products and technologies
  - Provide better patient service levels and continuity of care than in traditional arms-length "independent contractor" relationships where patients often are in the "middle"

Profile of Arkansas Blue Cross and Blue Shield/ Health Advantage Basic Business Model

Little Rock MSA

PPO (FirstSource)

- Owned and operated by Arkansas Blue Cross/subsidiaries
- Type - Negotiated discounted fee-for-service based on patient steerage via classical price-volume considerations
- Major strengths:
  - Relatively large physician network constituted mainly of physicians with staff privileges (plus other credentialing criteria) at in-network hospitals
  - Generates "across town" competition by typically contracting with only one major acute general hospital in communities with two or more hospitals

Profile of Arkansas Blue Cross and Blue Shield/ Health Advantage Basic Business Model

Little Rock MSA

Indemnity

- **Standard AWP oriented structure with basic features of agreed upon fee reimbursement levels and patient hold harmless for over-range charges**
- **Major Strengths:**
  - **Available to customers who do not want patient steerage features of typical PPO or HMO offerings**
  - **Virtually all licensed hospitals and physicians in state chose to participate in this arrangement**

Profile of Arkansas Blue Cross and Blue Shield/ Health Advantage Basic Business Model

Little Rock MSA

_No_ Arkansas Blue Cross/Health Advantage provider contracts contain any of the following provisions:

- **Most favored nation clause**
- **Exclusivity in terms of contracting with competitors**
- **"All products" clause**
- **Physician/hospital "gag provisions" regarding patient communications on alternative courses of treatment**

Final Note—Comparable package of PPO health benefits in Little Rock market averages 13% below the national average for like health coverage.