Meeting the challenge
of affordable health care –

an integrated approach
The rising cost of health care affects all of us. After 4 years of double-digit premium rate increases, employers large and small continue to struggle with how to provide affordable health coverage for their employees.

Many factors are driving these spiraling increases. Expensive new technologies can now diagnose and treat conditions that previously may have been difficult even to detect. Direct-to-consumer drug advertising and direct marketing to physicians by pharmaceutical companies have helped to foster a dependence on a steady diet of expensive new drugs. Hospitals are putting needed investment toward new equipment and specialty facilities, and are consolidating to leverage their market position. Add to that lowered government reimbursement levels that leave the private sector with an increasing cost-sharing burden.

**meeting the challenge**

As research and development continue to raise the bar on health care standards, blockbuster drugs and expensive treatments become medical “must-haves,” especially for a baby boom population rapidly becoming this nation’s seniors – the segment that accounts for the greatest share of national health care expenditures. There’s no doubt that medical progress fulfills our collective yearning for improved quality of life and increased longevity, yet its cost presents a challenge to patients, employers, providers, and health care plans.

*It’s a complex challenge that will only be solved with an integrated approach.*

Welcome to Blue Solutions, Blue Cross Blue Shield of Massachusetts’ multi-faceted, integrated strategy that is meeting health care’s complex challenges. At its core is a new model of health care management, founded on a belief in creating proactive health care partnerships that empower our members, providers, and business partners, coupled with a shift in focus that makes maintaining health as important as treating sickness. As an industry leader, Blue Cross Blue Shield of Massachusetts has always sought to provide creative, affordable health care solutions. **We believe that high-quality health care can also be affordable.**
Our approach combines education and a variety of programs dedicated to promoting better health, with more intensive interventions for members with increased health risks and care needs. Our goal is to empower our members to become informed, proactive decision makers about their lifestyle and their health care.

**Prevention**

69% of our members are considered healthy or well. Our focus for these members is on preventive and routine care, and includes a combination of education, prevention, and benefits that promote “a healthy lifestyle.” We offer members and employers access to a wide variety of programs dedicated to promoting better health at home and in the workplace.

Our **Living Healthy® Programs** form a crucial part of our response to health care inflation, and have helped secure our position as an innovator and industry leader.

- Members can call the toll-free **Blue Care® Line** (1-888-247-BLUE) 24 hours a day, 7 days a week to receive medical advice from a registered nurse. The service guides members in seeking appropriate care.
- Our **Living Healthy Babies®** program provides educational materials and special discounts to members before, during, and after pregnancy. Members receive preconception materials, a prenatal package, and child development materials that guide them through that critical first year of a child’s emotional and behavioral development.

**Proactive**

Members in many of our plans can take advantage of our **Fitness Benefit** to save up to $150 a year on health club memberships or exercise classes at a qualified health club anywhere in the world.

We offer **Living Healthy Naturally** for members interested in alternative approaches to health care. The program provides members with up to 20% savings on acupuncture, massage therapy, and nutrition counseling. In addition, members can enjoy some of the largest networks of credentialed alternative medicine providers in Massachusetts.

For additional savings, members can enjoy **Healthy Discounts** on everything from bicycle helmets to Weight Watchers® to child development and safety products.

**Worksite Programs**

In an effort to encourage a health-conscious work environment, Blue Cross Blue Shield of Massachusetts offers a comprehensive **Worksite Wellness** program. Our team of experts provides free customized consultation services, organizes on-site wellness activities, and offers a variety of fee-for-service activities and resources for businesses and their employees.

Qualified employers can also take advantage of our **Blue Ribbon** program for additional on-site health and wellness support. The program offers health assessments, high-risk interventions, on-site seminars and screenings, and a broad range of educational materials.

**Transitional Focus**

Blue Health Coach is our program designed for members who may be at risk for developing future adverse health conditions. The program uses predictive modeling to proactively identify members for participation. Specially trained health coaches then work with members over the phone to educate them about lifestyle changes that can lessen their likelihood of developing future conditions, and take them through the necessary steps for implementing positive change. Coaches maintain an ongoing relationship to ensure compliance over time and to address potential problems early on.

**Private Health Insurance Spending, 2001**

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Total</th>
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<tbody>
<tr>
<td>Hospital</td>
<td>37%</td>
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<tr>
<td>Physician</td>
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<tr>
<td>Prescription</td>
<td>21%</td>
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<tr>
<td>Outpatient</td>
<td>14%</td>
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*Source: Center for Studying Health System Change, “Tracking Health Care Costs,” 2002*
Disease Management

We identify participants for our disease management programs using diagnostic, claims, pharmacy, and other clinical data. Our disease management clinicians work with patients and physicians to reduce redundant and fragmented care and achieve improved clinical outcomes and cost savings.

- Our Living Healthy with Diabetes program began in 1997. Our focus is to provide education that helps members better understand their disease and improve management and treatment compliance for low-risk diabetics. In 2002, we launched Diabetes HealthwaysSM for higher-risk members who would benefit from more intensive diabetes management services. Offered in partnership with American Healthways, Inc., a leading provider of disease management programs, the enhanced program targets the roughly 20% of our diabetic population who have complex treatment needs.

- We’re also working with American Healthways, Inc. to administer Cardiac HealthwaysSM, our disease management program for members identified with congestive heart failure. Approximately 60%-80% of the cost of care for these members results from inpatient admissions, and up to half of those admissions are preventable. The results of this program are already measurable: During the first six months of the program, HMO/POS and Blue Care®65 members experienced improvement in their quality of life and understanding of their disease, while medical costs were 10% lower than expected for HMO/POS and 20% lower for Blue Care®65, primarily due to reductions in inpatient utilization.

Case Management

Members appropriate for case management include those with complex care needs, catastrophic illness or injury, or other factors that may prevent them from receiving adequate medical care or whose care requires extensive coordination. In addition, there are specialized programs for members undergoing transplants and infertility treatment. Participants for case management are identified through a variety of methods, including claims data, health risk assessments, episodes of care, physician referral, and member self-referral. Participants and their physicians receive intensive intervention, care and services coordination, and support from a case management team. Teams are led by registered nurses with experience in chronic illness and high-risk care. The programs are aimed at improving health status and quality of life, and lowering rates of complication and inpatient admissions.

Initiatives Coming in 2003

Disease management programs for members with Coronary Artery Disease and Rare Diseases such as multiple sclerosis and cystic fibrosis will be introduced in 2003.

Pay for Performance and Quality Incentives

Primary Care Physician Incentive Program

We place a strong emphasis on supplementing equitable physician reimbursement with performance incentives for providers who consistently use best practices and deliver high-quality care. We provide physicians with actionable patient data to help them in achieving these goals. In 2002, we paid nearly $16.5 million in primary care physician incentive awards, representing approximately 8% improvement in physician performance and delivery of preventive services measured as part of our programs.

On January 1, 2003, we implemented our Group Performance Incentive Program for large practices. This program recognizes primary care and specialist physicians for quality, patient satisfaction, and cost-effective care.

Hospital Quality Improvement Incentive Program

This program rewards hospitals that demonstrate data-driven, outcomes-oriented performance improvements. The program is designed to drive development and acceleration of hospital improvement activities that represent shared priorities, identify best practices, and facilitate collaborative educational sessions for hospitals. Incentives also support and recognize active participation in effective performance processes.

Health Institute Performance Partnership

Several years ago we implemented the Health Institute Performance Partnership (HIPP), a collaboration between Blue Cross Blue Shield of Massachusetts and network hospitals, to identify mutually agreed-upon annual performance improvement criteria. Hospitals receive quarterly comparative reports of quality indicators.

Soliciting Physician Input

We’re soliciting direct physician input to help shape our programs and initiatives. In 2001 we convened a Physician Advisory Board composed of well-respected community physicians. The board has provided valuable input into our Group Performance Incentive Program and other initiatives. We’ve also convened Physician Specialty Committees to discuss treatment initiatives and program enhancements.
new product

Over the past several years, employers have absorbed an increasing share of rising health coverage costs for their workers. But continuing increases threaten to make the cost of employer-sponsored health benefits prohibitive.

Unfortunately, employers continue to feel the strain of decreased employee contributions to premium and pharmacy costs. That's why we've designed Blue Solutions to encompass a range of flexible health plans that offer various levels of increased cost sharing. These innovative products and options accommodate a variety of short- and long-term cost management strategies. Our goal is to give employers and employees alike the freedom to make more-informed decisions about the health care they invest in.

Tri Blue

We've taken our most popular plans and organized them into low, medium, and high options. Employers select one plan from each option category, and employees then choose the plan that best suits their needs. For example:

- **Low Option Plans:** HMO Blue® Value, HMO Blue Value Plus, HMO Blue New England (Value Plus Version), Blue Care Elect Preferred (PPO) 80/80
- **Medium Option Plans:** HMO Blue $10 Copay Plan, HMO Blue New England $10 Copay Plan, Blue Care Elect Preferred (PPO) 90/70
- **High Option Plans:** Access Blue, Access Blue Plus, Blue Choice® $10 Copay Plan, Blue Choice New England $10 Copay Plan, Blue Care Elect Preferred (PPO) 100/80

Employee Cost Sharing

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<th>Health Care Premium</th>
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<table>
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<td>2004</td>
</tr>
<tr>
<td>2005</td>
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<td>2006</td>
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**Source:** Kaiser Family Foundation

**Employee Cost Sharing**

63% 50% 33% 18%

**Source:** Booz - Allen & Hamilton

**Health Care Premium**

<table>
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<tr>
<td>$5,000</td>
<td>$12,500</td>
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**HMO Blue $1,000 Deductible**

This HMO plan combines greater employee cost sharing with comprehensive HMO Blue coverage.

**The Blue Care Account Option**

With Blue Care Elect Deductible options and HMO Blue $1,000 Deductible, employers can opt to reimburse employees through a Section 105 Blue Care Account that offsets a portion of employee out-of-pocket costs. This gives employers and employees the incentive to make more-informed decisions as health care consumers.

**HMO Blue Preferences $350/$600 Options**

HMO Blue Preferences plans offer members lower copayments for certain services when they seek care at selected hospitals or from certain providers.

**Top Ratings from the National Committee for Quality Assurance**

Since November 1999, Blue Cross Blue Shield of Massachusetts’ HMO plans have received the “Excellent” accreditation rating from the National Committee for Quality Assurance. Our Preferred Provider Organization plans are the first NCQA Accredited PPOs in New England, receiving the “Full” rating as of November 30, 2002. Both ratings are the highest possible for HMO and PPO plan designs.
Three main factors are driving pharmacy cost increases: increased utilization, price inflation, and new high-cost medications. Our pharmacy management initiatives address these factors from multiple perspectives. Our goal is to provide members and physicians with a wide range of safe, effective, and affordable medications, and ensure that pharmacy costs and trends are closely managed. Management initiatives introduced in the second half of 2001 alone resulted in immediate and significant decreases in per-member-per-month (PMPM) drug spending. As a result of initiatives and benefit changes implemented during the past three years, 2002 PMPM drug spending was 35% to 40% lower than predicted trends.

Member Education
We continue to educate members about medication cost drivers, including the effects of direct-to-consumer advertising on use of expensive brand-name drugs and the real value offered by generic alternatives. Our goal is to create savvy medication consumers who know how to get the best value for their prescription dollars.

Three-Tier Pharmacy Benefit Program with Formulary
Our three-tier pharmacy copayment structure affords a wide choice of effective medications, while promoting patient-physician dialogue regarding treatment options and cost-effective medication choices. We supplement this with a formulary designed to further promote the use of the most cost-effective, clinically appropriate medications. We also offer innovative plan designs with deductible and co-insurance options that help members become more aware of the cost of prescription drugs.

Pharmacy and Therapeutics (P&T) Committee
Our P&T Committee is composed of external, independent physicians and pharmacists who provide input to our pharmacy formulary decisions. The committee continually reviews and evaluates current and new medications, therapeutic classes, and emerging therapies for safety, effectiveness, and value.

Pharmacy Benefit Management
We contract with a Pharmacy Benefit Management company (PBM) to help us manage our pharmacy program. Our PBM provides administrative expertise, as well as contracting with retail pharmacies and pharmaceutical manufacturers to obtain discounts on prescription medications.

Mail Service Prescription Program
Depending on the specifics of their plan, members can use our Mail Service Prescription Program to lower their prescription costs and have medications delivered to their home or workplace.

Quality Care Dosing (QCD)
QCD is a program designed to ensure that the quantity and dose of prescriptions for certain medications meet FDA and other accepted clinical practice guidelines. QCD helps ensure patient safety while reducing costs.

Physician Education
We provide quarterly reports to our 4,000 Primary Care Physicians comparing their use of certain medications with the rest of the network. Physicians also receive a pocket formulary guide of the medications we cover that includes a cost-effectiveness indicator for each drug.
Finding Care Online

Blue Cross Blue Shield of Massachusetts is using state-of-the-art Internet technology to add a new dimension to affordable, quality health care. Our corporate website, bluecrossma.com, helps members stay informed and healthy with a wealth of online tools and resources.

bluecrossma.com

• My Wellbeing is bluecrossma.com’s central hub that links members to our integrated set of health and wellness programs. Programs are designed to promote healthy lifestyles and range from personal safety and smoking cessation, to advice on child raising, and discounts on prescription drugs, safety items, and alternative health therapies.

• Our Find a Doctor feature allows members to search for doctors by name, specialty, or location and find out if they are currently accepting new patients.

• Member Self-Service allows members to order a new ID card, change their PCP, or update their address information right online, according to the specifics of their plan.

• At our online Pharmacy, members can find a wealth of medication information, including a glossary of terms and a search tool that helps them locate prescription medication copayment levels.

AHealthyMe.com

Our comprehensive health information website, AHealthyMe.com, offers a variety of online resources which can be customized by each member. The site includes tools that help members calculate health status and identify potential risk factors, a network of self care centers that provides in-depth information and management techniques for common medical conditions, and the most current wellness and medical information available.

Online Partnerships

In addition, we’ve partnered with outstanding online organizations to provide additional member services and access to credible health care information.

• Blue Cross Blue Shield of Massachusetts has partnered with drugstore.com™, a leading online provider of health and wellness products. In addition to the convenience of online shopping, members will find discounts and promotional offers simply by visiting our website at bluecrossma.com and clicking on the “drugstore.com” link.

• We have also partnered with WebMD® and its online university to bring members a series of online health and wellness courses taught by instructors and leading health experts. At WebMD University, students participate at their own pace, reading weekly lectures, posting questions in a “student lounge,” and participating in live online events. Participants also receive a weekly newsletter delivered to their e-mail box. All courses are archived on bluecrossma.com for ongoing accessibility.
**Administrative Simplification**

We’re implementing new technologies and operational enhancements that will improve the quality, accessibility, and responsiveness of our service to eliminate administrative burdens placed on our providers. This has helped our HMO Blue provider satisfaction results reach 92%, while administrative costs declined from 11.1% in 1999 to an estimated 8.6% in 2002.

**Provider Workgroups**

We convene hospital and physician provider workgroups quarterly to identify and resolve issues contributing to administrative burdens. As a result, a host of ongoing operational enhancements have been instituted.

**Online Benefits**

We are testing web-based information technology with select provider groups. The application gives providers instant access to online member benefit information. We will use participating provider feedback to develop future application enhancements.

**e-Prescribing Pilot**

We are undertaking a pilot program that provides hand-held PDA prescribing devices to HMO Blue physicians. This one-year pilot will be evaluated for its impact on medical errors and patient prescription compliance monitoring, as well as its ability to lower administrative burdens in the physician’s office.

**Physician Hotline**

Our physician hotline gives physicians a point-of-contact for urgent issues impacting their ability to provide care. Blue Cross Blue Shield of Massachusetts associates can also use the hotline when working with physicians to resolve urgent problems.

**Med-Blue**

We provide a direct link from our provider Internet home page to the WebMD/Medscape website, which offers over 300 free CME courses for our physicians.

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3. Blue Cross Blue Shield of Massachusetts Internal Survey

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**The Health Insurance Portability and Accountability Act (HIPAA)**

HIPAA is a federal law that monitors health insurance continuity and mandates transaction processing standards intended to protect the security of Protected Health Information (PHI). In 2000 we launched our efforts to educate providers and assist them in complying with HIPAA requirements.

**Coming in 2003**

We plan to expand our e-Prescribing Pilot with additional functionality through RxHub. This initiative will include complete patient claims history, and enhance online provider self-service functionality in partnership with WebMD.
To learn more about the programs in this brochure, visit www.bluecrossma.com or call your Account Executive.