



March 9, 2010

Ms. Angela F. Braly President and Chief Executive Officer WellPoint, Inc. 120 Monument Circle Indianapolis, IN 46204

Dear Ms. Braly:

The American Hospital Association shares WellPoint's stated goal of working to reform our current health care system in a manner that not only greatly expands coverage, but also focuses on improving quality and better managing costs. That said, working to achieve these goals will require engagement from all stakeholders and must center on constructive solutions that are based on facts.

Your assertion that "provider consolidation" is a key driver of increased health care premiums is at odds with the facts. You cite a 10 percent upward trend in hospitals costs, but the overall premium increase was as high as 39 percent in some markets. Recent national data suggests that rising utilization and cost increases in labor, medical technologies and other supplies are driving up hospital costs, not consolidation. The recent decline in hospital margins – down to 2.6 percent in 2008 – indicates that rate increases are not keeping pace with these cost increases, further evidence that consolidation is not the issue. Despite sinking margins, America's hospitals continue to act as the safety net for the health needs of their patients and communities while WellPoint and many other large insurers enjoy significantly higher margins.

The increase in spending on hospital care is primarily driven by increased utilization (34 percent) and by increases in the cost of the goods and services hospitals purchase to provide care (64 percent). Growth in labor costs is the most important single factor driving up the cost of hospital care (Chart 1-2).

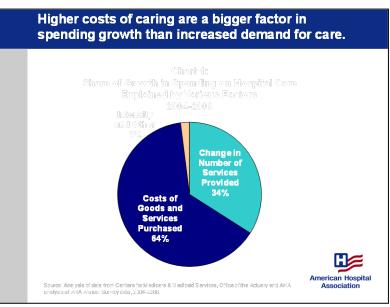
Meanwhile, premium increases are exceeding the growth in underlying health care costs. According to estimates by the Centers for Medicare & Medicaid Services Office of the Actuary, between 2000 and 2008, per capita private health insurance spending on health services and supplies rose by 74 percent while spending on hospital care rose by 67 percent. At the same time the Kaiser Family Foundation reported cumulative premium increases of 97 percent for family

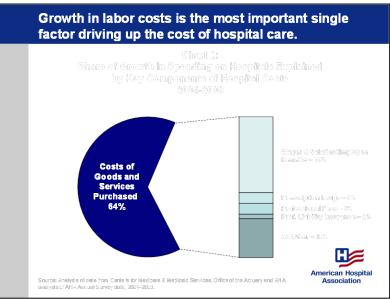


coverage and 90 percent for single coverage in employer sponsored plans. This gaps means less of the premium dollar is going to health care and more to insurer profits and administrative expenses.

A recent study by the American Medical Association highlights the increasing bargaining power of health insurance companies. Of 313 metropolitan areas studied by the AMA, 99 percent now have health insurance markets that exceed Justice Department competition guidelines, up from 94 percent a year ago. Meanwhile, hospital participation in systems has been stable at 54 percent since 2001. Despite years of intense scrutiny, neither federal antitrust agency has challenged as anticompetitive any hospital simply because it became part of a system or participated in systemwide contracting.

In fact, the benefits of both horizontal and vertical integration are well documented by the federal antitrust agencies. Extensive hearings on the state of competition in the health care field included an examination of hospital consolidation over the past 20 years. After those hearings, the Federal Trade Commission and the Department of Justice (DOJ) Antitrust Division described the potential benefits of consolidation:





"Consolidation presents an opportunity for hospitals to compete more efficiently. Consolidated hospitals can employ mechanisms to improve the quality of care and limit duplication of services or administrative expenses. Consolidated hospitals may also be able to improve quality if they centralize performance of complex procedures for which greater volume leads to higher quality. Consolidated hospitals could also use their combined resources to track established clinical quality measures and develop new ones." (Improving Health Care: A Dose of Competition, July 2004.)

No sector of health care has been more extensively overseen by the antitrust agencies than the hospital field when it comes to determining the likely competitive consequences of integration. Despite this scrutiny, the antitrust agencies, in that same report, formally concluded:

"Most hospital mergers and acquisitions do not present competitive concerns. Indeed, since 1981, the Commission and DOJ have challenged relatively few hospital mergers, in some instances seeking relief only for part of the transaction"

Any claim that hospital consolidation is typically anticompetitive has been rejected by the federal antitrust agencies. The claim that hospital consolidation has contributed to insurance premium increases similarly has been debunked. For example, in 2003, the AHA commissioned two well-known and respected economic consulting firms to examine claims by the Blue Cross and Blue Shield Association (BCBSA) that hospital consolidation and the restructuring of hospital markets contributed substantially to overall health care premium increases. The report rejected those claims, concluding:

- There is no valid empirical basis for the conclusion...that changes in market structure or "consolidation" have accounted for increases in spending on hospital services.
- Based on a review of actual merger data and trends, hospital merger activity does not explain the increases in spending on hospital services claimed in the BCBSA studies.
- Increases in spending on hospital services are explained by many factors, such as increased patient volume and the rising costs of providing care, rather than "consolidation" and changes in market structure.

There is no reason to believe that the situation has changed appreciably since 2003, particularly in light of the more recent findings by the federal antitrust agencies.

Again, we are in agreement that our health care system is at a cross-roads and something must be done. Improving the affordability of care will take an effort by everyone – insurers, hospitals, businesses, physicians, nurses, employers and individuals. Hospitals are committed to doing our part and challenge all those involved to address the real cost drivers: rising rates of chronic disease, a labor shortage that is driving up wage rates, skyrocketing costs for new technologies and pharmaceuticals and excessive administrative costs due to unnecessary complexity.

Sincerely,

Rich Umbdenstock President and CEO