

Hospital & Physician Cost Shift

Payment Level Comparison of Medicare, Medicaid, and Commercial Payers

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Total Cost Shift Estimate

Chart 1
Medicare & Medicaid Cost Shift
in billions

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Hospital	(\$34.8)	(\$16.2)	\$51.0	\$0.0
Physician	(\$14.1)	(\$23.7)	\$37.8	\$0.0
Total	(\$48.9)	(\$39.9)	\$88.8	\$0.0

- Cost shift defined as additional amount Medicare and Medicaid would need to pay such that hospitals would realize consistent margins and physicians would be paid equivalent rates from each of the three payers, holding total payment constant
- 2006 for hospital, 2007 for physician

Employer and Consumer Burden

Chart 4
Annual Medicare & Medicaid Cost Shift Burden for
Typical Family of Four in a Commercial PPO Plan

	Total Annual Cost ¹			Portion Due to Cost Shift		
	<i>Cost</i>			<i>Cost</i>		
	<i>Premium</i>	<i>Sharing</i>	<i>Total</i>	<i>Premium</i>	<i>Sharing</i>	<i>Total</i>
Employer	\$10,481		\$10,481	\$1,115		\$1,115
Subscriber	\$3,731	\$2,420	\$6,151	\$397	\$276	\$673
Total	\$14,212	\$2,420	\$16,632	\$1,512	\$276	\$1,788
% of Total				10.6%	11.4%	10.7%

1) Based on the 2007 Milliman Medical Index, with an 85% loss ratio assumed.

- Cost shift accounts for approximately \$1,788 annual health care cost for typical family of four, or 10.7% of the total
- Average 2007 PPO plan design

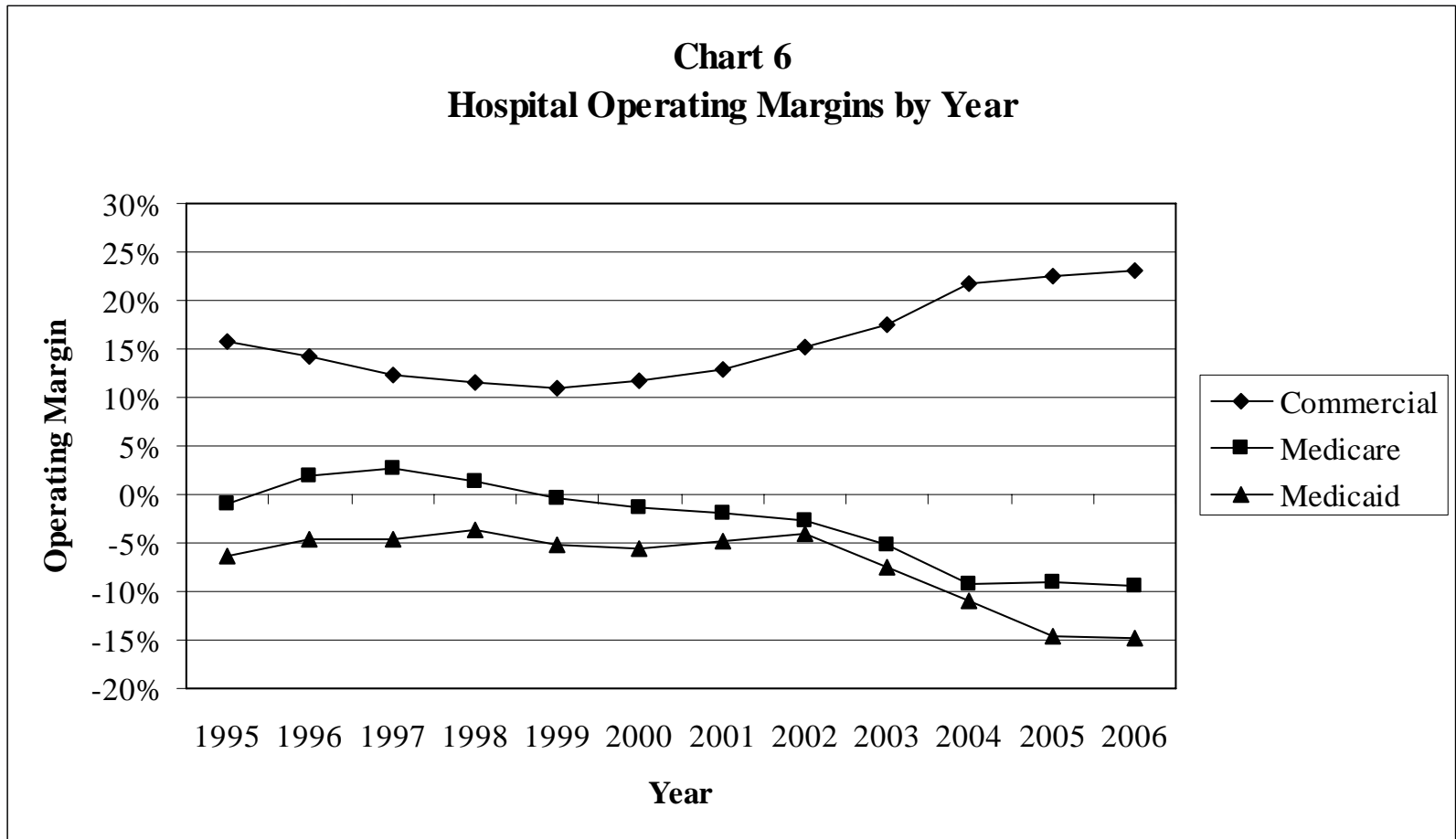
2006 US Hospital Cost Shift Estimate

Chart 7
2006 Medicare & Medicaid Hospital Cost Shift
in billions

	(A)	(B)	(C)	(D)=C/A	(E)=A-C	(F)
	Actual, with Cost Shift			Percent of	With Cost Shift Removed	
	<i>Patient</i>		<i>Cost</i>	<i>Patient</i>	<i>Patient</i>	
	<u>Revenue</u>	<u>Margin</u>	<u>Shift</u>	<u>Revenue</u>	<u>Revenue</u>	<u>Margin</u>
Medicare	\$195.7	-9.4%	(\$34.8)	-17.8%	\$230.5	6.4%
Medicaid	\$67.8	-14.7%	(\$16.2)	-23.9%	\$84.0	6.2%
Commercial	\$276.4	23.1%	\$51.0	18.4%	\$225.4	6.6%
Total	\$539.9	6.4%	\$0.0	0.0%	\$539.9	6.4%

- Redistribution of payment, holding total payment constant
- Self-pay & other government not included in above, bring total operating margin down to 3.8%
- Evaluated on hospital specific basis

Hospital Operating Margins by Year



- Based on AHA Survey data

2007 US Physician Cost Shift Estimate

Chart 9
2007 Medicare & Medicaid Physician Cost Shift
in billions

	(A)	(B)	(C)	(D)=C/A	(E)=A-C	(F)
	Actual, with Cost Shift				With Cost Shift Removed	
	<i>Allowed</i>	<i>Relative Payment Level</i>	<i>Cost Shift</i>	<i>% of Allowed</i>	<i>Allowed</i>	<i>Relative Payment Level</i>
Medicare	\$111.2	89%	(\$14.1)	-13%	\$125.3	100%
Medicaid	35.9	60%	(\$23.7)	-66%	59.6	100%
Commercial	311.0	114%	\$37.8	12%	273.2	100%
Total	\$458.2	100%	\$0.0	0%	\$458.2	100%

- Medicare pays 11% less than the average
- Medicaid pays 40% less than the average
- Commercial pays 14% more than the average