Where does the Money go in the Healthcare System?

Jan Vest, CEO
Signature Medical Group

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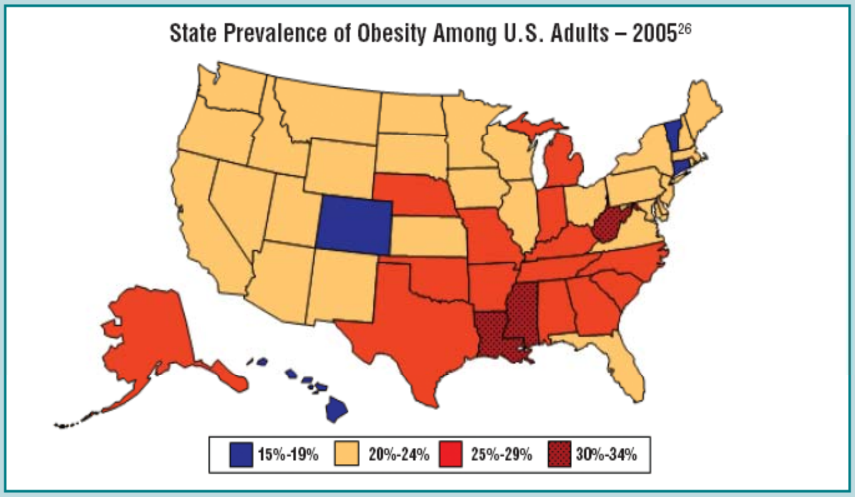
THE POWER TO DO WHAT'S RIGHT

Where Does The Money Go?
We don't take care of ourselves.

Chronic Disease in the United States

Approximately 133 million Americans live with one or more chronic disease conditions.[1] The high prevalence of chronic disease in the workforce translates to increased costs for employers. Direct costs to employers include physician visits, hospital care, and pharmaceuticals. The United States spends 75% of its $1.9 trillion healthcare expenditures on chronic disease each year.[12-13] On average, healthcare coverage for people with a chronic disease costs $6,032 per year, five times higher than coverage for those without a chronic disease.[12]

Missouri - We Can Do Better!



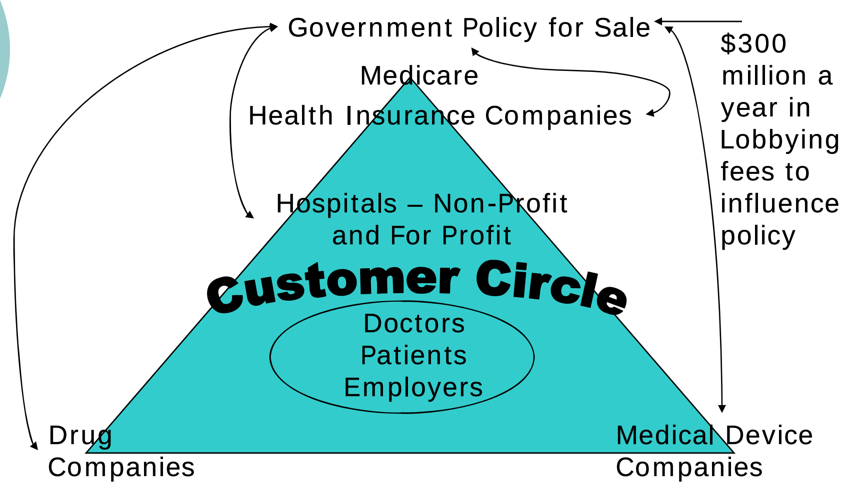
Source: Centers for Disease Control and Prevention: Behavioral Risk Factor Surveillance System. Overweight and Obesity: Obesity Trends: U.S. Obesity Trends 1985–2005. Atlanta, GA. Available online at: http://0-www.cdc.gov.mill1.sjlibrary.org/nccdphp/dnpa/obesity/trend/maps/ Accessed: October 30, 2006.

The Health Care Industrial Complex

-Created and Supported by the US Taxpayer

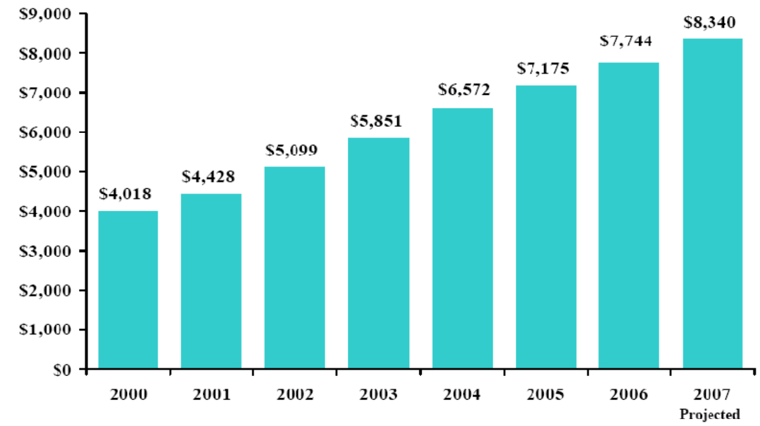
-What Has Government Policy Controlled Industry design delivered?

-A Mess and Higher Costs – and Quality of Care Problems



Hewitt

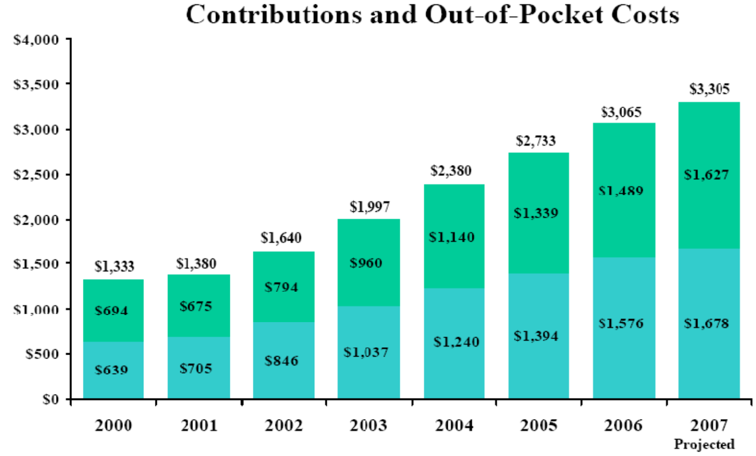
Annual Health Care Costs Per Employee National Averages



Source: Hewitt Health Value Initiative™

Hewitt

National Average Employee Contributions and Out-of-Pocket Costs

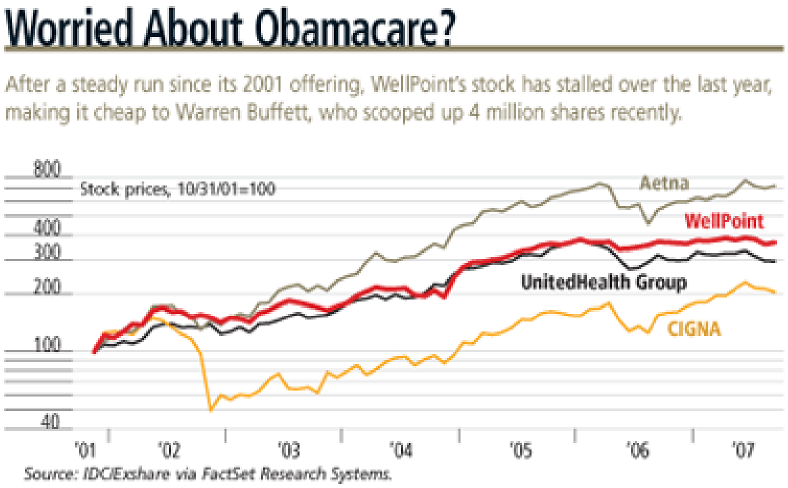


Employee Out-of-Pocket Costs is what employees spend on copayments, deductibles and coinsurance.

Employee Contribution is the average employee contribution to the overall health plan premium.

Source: Hewitt Health Value Initiative™

Health Plans Stock Prices have soared since 2001.



Where does the money GO?

Where does the money GO?

UnitedHealthcare of the Midwest

General Information	Income & Revenue*	Local Enrollment**	Missouri Enrollment**
Year Licensed: 1986 **Products Offered Locally:** ☑ HMO ☐ Medicaid HMO ☑ PPO ☑ Medicare HMO ☑ POS ☑ HSA/CDHP	**2004 HMO Net Income:** $27.5M **2004 HMO Revenue:** $555.3M **2005 HMO Net Income:** $32.6M **2005 HMO Revenue:** $521.1M	**Commercial HMO:** 118,505 **Fully Insured PPO:** 121,562 **Self-Insured PPO:** 277,165 **Medicaid HMO:** 0 **Medicare HMO:** 32,956	**Commercial HMO:** 121,382 **Fully Insured PPO:** 167,005 **Self-Insured PPO:** 398,826 **Medicaid HMO:** 0 **Medicare HMO:** 42,462

*Multistate reporting.
**As of Jan. 1, 2006.

Coventry Health Care

General Information	Income & Revenue*	Local Enrollment**	Missouri Enrollment**
Year Licensed: 1985 (Group Health Plan), 1995 (HealthCare USA) **Products Offered Locally:** ☑ HMO ☑ Medicaid HMO ☑ PPO ☑ Medicare HMO ☑ POS ☑ HSA/CDHP	**2004 HMO Net Income:** $58.4M **2004 HMO Revenue:** $976.5M **2005 HMO Net Income:** $57.6M **2005 HMO Revenue:** $869.0M	**Commercial HMO:** 77,456 **Fully Insured PPO:** 4,582 **Self-Insured PPO:** 64,713 **Medicaid HMO:** 84,840 **Medicare HMO:** 12,686	**Commercial HMO:** 89,301 **Fully Insured PPO:** 4,157 **Self-Insured PPO:** 13,769 **Medicaid HMO:** 151,910 **Medicare HMO:** 11,928

*Combined for Group Health Plan (multistate reporting) and HealthCare USA of Missouri.
**As of Jan. 1, 2006.

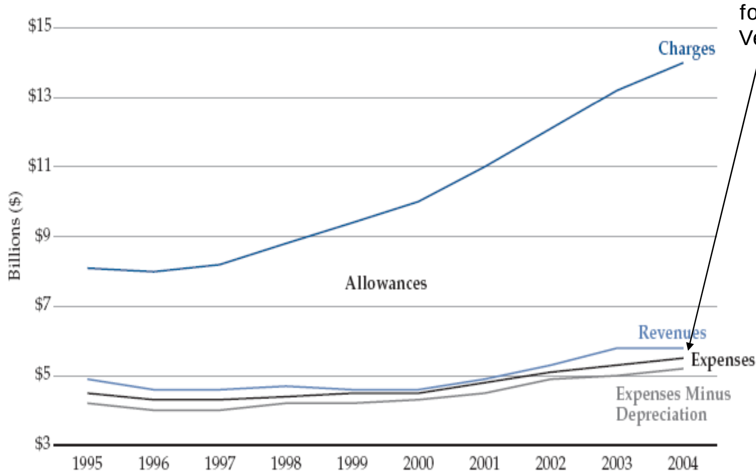
Merck RX

Latest Full Context Quarter Ending Date	**2007/06**
Gross Profit Margin	**82.6%**
EBIT Margin	**29.8%**
EBITDA Margin	**24.3%**
Pre-Tax Profit Margin	**28.1%**

Pfizer

Latest Full Context Quarter Ending Date	**2007/06**
Gross Profit Margin	**87.4%**
EBIT Margin	**24.6%**
EBITDA Margin	**38.8%**
Pre-Tax Profit Margin	**23.6%**

Aggregate Charges, Revenues and Expenses St. Louis Area Hospital Industry Shown in 2004 Dollars



The Operating Margin for Providers is Very Lean.

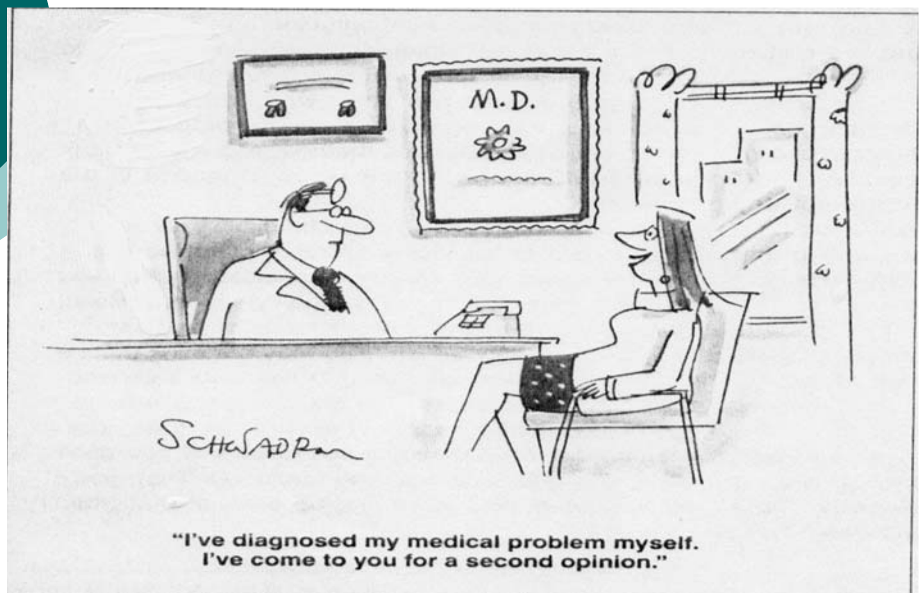
Revenues increased 1.2% in 2004.

Charges increased 6% in 2004.

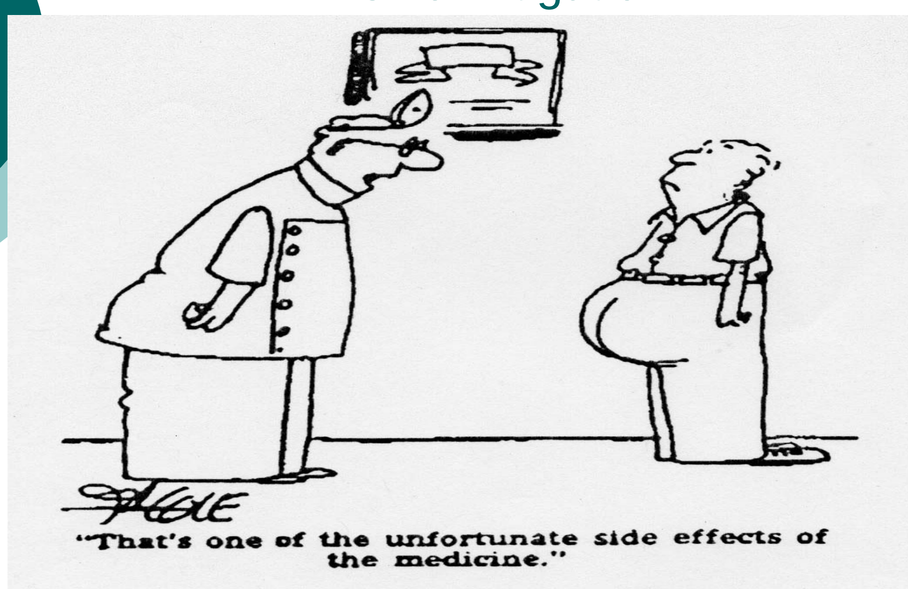
Expenses increased 3.8% in 2004.

Source: Centers for Medicare and Medicaid Services Medicare Cost Reports and audited financial statements. Inflation adjustments are based on the St. Louis area CPI (including medical component), provided by the U.S. Labor Department. Hospitals that are part of consolidated organizations may not report all of their non-operating revenue and expenses by individual hospital and their cumulative effect may not be reflected in these results.

Challenges Facing Physicians
Educated Patients!



Challenges Facing Physicians
Risk of Litigation



CMS reimbursement for total hip arthroplasty physician services has decreased 39% during the last 15 years

$2,200 in 1991

$521,787
2005 Median
Overhead
Cost

1991 – MGMA Survey Average Overhead Cost for Orthopedic Surgeon $225,000

$1,336
2006

1991 to 2007 comparison Costs for Total Hip Replacement

Hospital Medicare PMT

1991--$8,489 2007 -$10,644

Selling Price of Implant

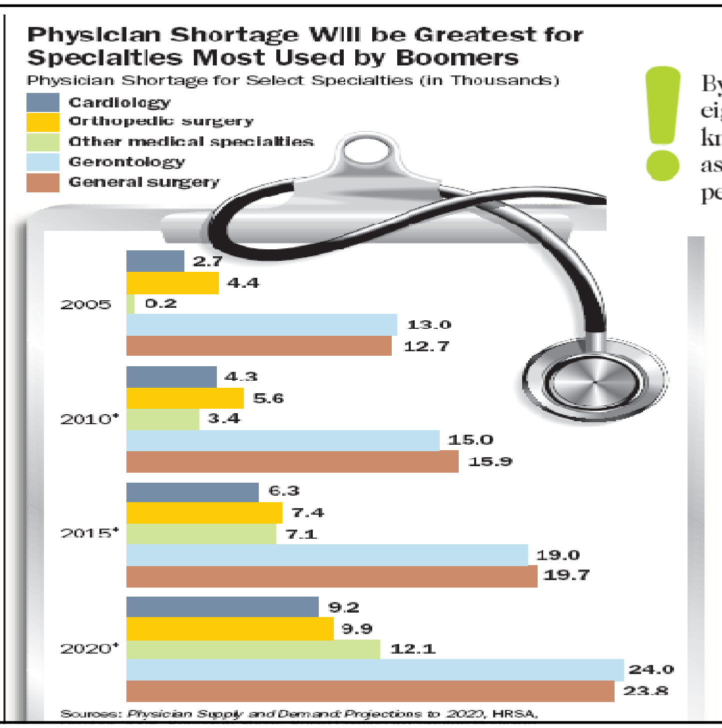
1991---$2,841 2007 - $6,437

Physician Medicare Payment

1991 --- 2,200 2007 --- $ 1,336

Medicare is going to continue cutting physician payments --- until when?

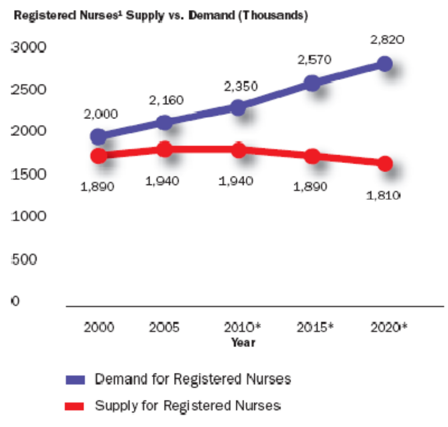
The battle to eliminate the 9.9 percent physician payment cut scheduled to take effect Jan. 1, 2008 — and permanently replace the flawed sustainable-growth-rate (SGR) formula — formally began in early July in the House of Representatives. As this article went to press, members of the House hoped to take action on a proposal to eliminate the decreases to the Medicare physician fee schedule in 2008 and 2009, create six new categories of services and apply a redesigned formula to each category. The



By 2030, eight times as many knee replacements as today will be performed.

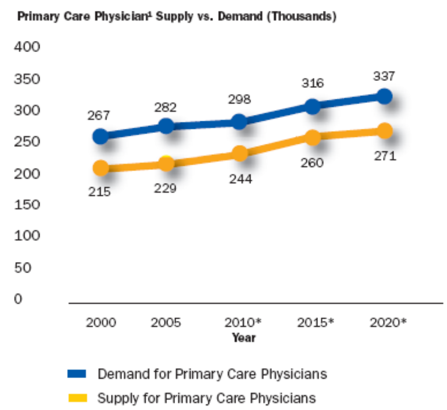
Where will they come from and why will they go into medicine – if working conditions are bad?

The need for registered nurses is outpacing the supply.



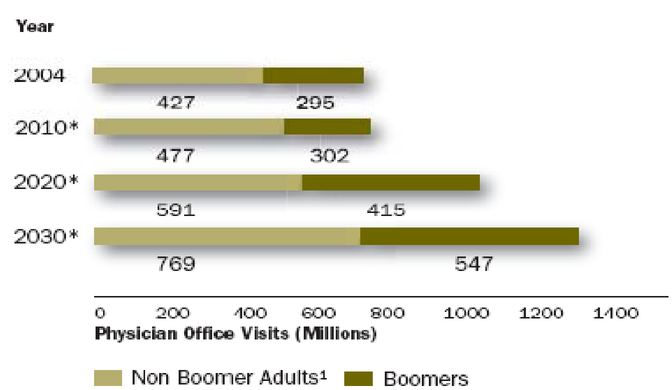
* Projected.
1 Full-time equivalent nurses.
Source: FCG projections based on HRSA, *What Is Behind HRSA's Projected Supply, Demand, and Shortage of Registered Nurses*, September 2004

The projected gap for primary care physicians will increase as Boomers age.



Physician office visits for adults will number more than one billion by 2020. Four out of 10 will be Boomers.

Number of Physician Office Visits



* Projected.
1 Non-Boomer adults indicates non-Boomers over the age of 15.
Source: FCG projections based on National Center for Health Statistics, *National Ambulatory Care Survey 2004*, June 2006

The Pricing Of U.S. Hospital Services: Chaos Behind A Veil Of Secrecy

An economist's insights into what causes the variation in pricing, and what to do about it. -- by Uwe E. Reinhardt

Concluding Observations

The bewildering and sometimes troublesome picture of contemporary U.S. Hospital pricing is not entirely of hospitals' own making. **They are part of a wider system of health care financing whose administrative expense now ranks as a major cost component of U.S. health care (as much as 25 percent).**

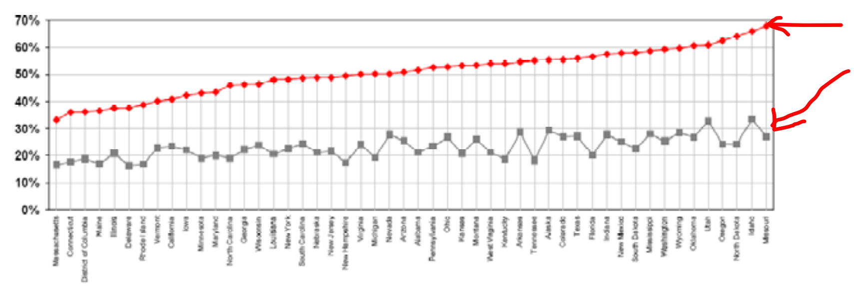
H o s p i t a l P r i c i n g
HEALTH A F FA I R S ~ *Vo l u m e 2 5 , Nu m b e r 1* 6 7, p.36

The Mission of Not-For-Profits and the Community – Just a Question

Uninsured women age 40-64 are less likely to have had a recommended breast cancer screening in the past two years.

Figure 5: Percent of Uninsured and Insured Women (40-64) Who Have Not Had a Mammogram in the Past Two Years

Uninsured
Insured

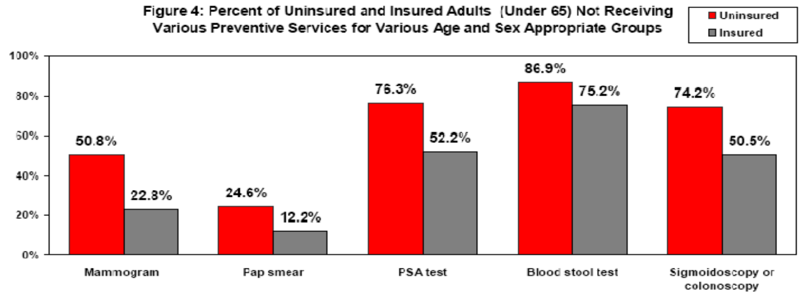


Source: Centers for Disease Control and Prevention (CDC), 2004 Behavioral Risk Factor Surveillance System survey data. National estimates do not include Hawaii.

- Nationally, 50.8 percent of women 40-64 without health insurance, compared to 22.8 percent with health insurance, have not had a mammogram in the past two years.
- Uninsured women age 40-64 in North Dakota, Idaho and Missouri were less likely to have had a mammogram in the past two years than uninsured women age 40-64 in Massachusetts, Connecticut and the District of Columbia.
- The percent of insured women age 40-64 with no mammogram in the past two years is statistically less than the percent of uninsured women age 40-64 without a mammogram in the same time period in every state.

5000 too many beds – and $1Billion in hospital construction --- in the face of these statistics – are we allocating resources wisely?

Uninsured adults are less likely to receive preventive services than adults with coverage.



Source: Centers for Disease Control and Prevention (CDC), 2004 Behavioral Risk Factor Surveillance System survey data. National estimates do not include Hawaii.

- Across the U.S., uninsured adults of appropriate age groups are less likely to have received recommended cancer screenings.

The Coverage Gap, April 2006
State Health Access Data Assistance Center (SHADAC)

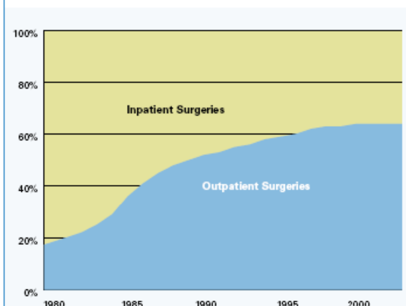
page 10

Embargoed until April 26, 2006 – 12:01 a.m. (ET)

Out Patient Physician Owned Facilities Reduce Cost and Improve Quality

Proportion of Hospital Outpatient and Inpatient Surgeries 1980-2003

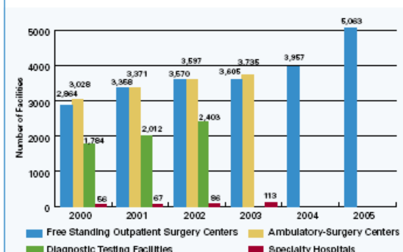
Currently about 60% of hospital-affiliated surgeries occur in an outpatient setting, a number that has remained relatively stable since 1995.



Source: Adapted from the American Hospital Association and The Lewin Group TrendWatch Chartbook, 2005, U.S. Census Bureau

Number of Facilities 2000-2005

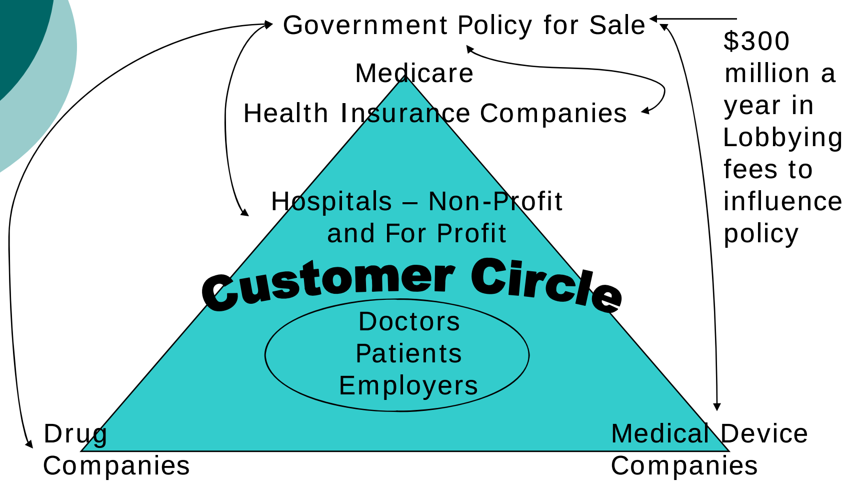
There has been a substantial growth in the number of special purpose facilities, centers and hospitals in recent years.



Average Annual Percent Change	
Free Standing Outpatient Surgery Centers	12%
Ambulatory-Surgery Centers	7%
Diagnostic Testing Facilities	16%
Specialty Hospitals	24%

Note: Data were not available for all years
Source: Inglehart, KE (2005), Verispan (2005a)

Do We Vote for More of This?



Stop Regulatory Totalitarianism

We can't afford it now and it will only lead to a worse situation in the future.

The Urban Hospital Industry coupled with the Health Insurance Middleman has a vice grip and are restraining competition.

- Only the customer can reform it.
- Support transparency and encourage competition.
- Hospitals can own Doctors; But – should they force patients to use more expensive services? MRI $500 in free standing facility -- $1,200 in hospital facility.
- PT $1,500 hospital service -- $ 1,100 alternative
- Encourage Nurse Case Management to coordinate care and price information. What is ethical and what is not? Price gouging is not in my opinion.
- http://online.wsj.com/public/resources/documents/info-launch.html?project=healthcare0307&w=950&h=503