
Advancing High Quality, Affordable Care

*Regence Takes a Proactive Approach to
Achieving Better Health Outcomes at
Lower Costs*



America's health care costs are growing at an unsustainable rate. Numerous studies report that we spend more on health care than other developed countries but lag behind in health outcomes.

Contrary to popular belief, the biggest reason for the rise in U.S. health care spending is not an aging population or patient demand but rather the increasing costs of drugs, procedures and hospital care (Journal of the American Medical Association [JAMA] study, Nov. 13, 2013). While there is a lot of worry about the aging baby boomers straining the health care system, it's not the elderly who are breaking the bank. The same JAMA study found that chronic conditions among people younger than 65 – ranging from heart disease to high blood pressure to back pain – account for two-thirds of health care costs.



Regence

your health, connected.SM

How Much We Spend On Health Care

CRITICAL CONDITION: WHY AMERICA MUST ADDRESS RISING HEALTH CARE COSTS

1 How much we spend on health care each year

With the **\$2.8 trillion** America spends annually you could:

Buy the 10 most valuable companies in America



\$2.71 trillion

... *and* put on three London Olympics



\$45 billion

... *and* still be richer than Warren Buffett



\$44 billion

Sources: CNN: Fortune 500, "Top Companies: Biggest," 2012 ; CBS News: "London Olympics Billions Over Budget, Study Shows," 2012 ; Forbes: Profile: Warren Buffet, 2012

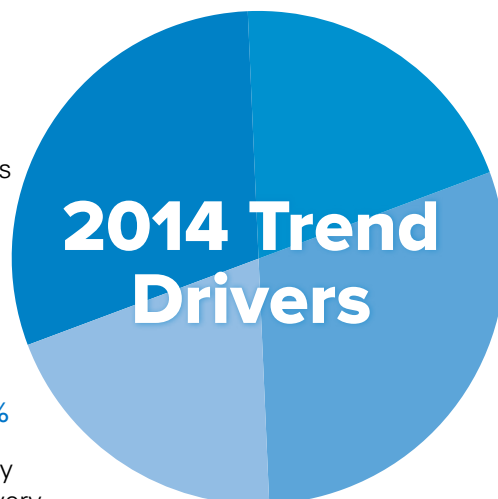
Center for American Progress



Health care costs are expected to rise 6.1 percent in 2014, up from about 4 percent in 2013¹. This chart shows what is driving cost increases.

PROVIDER COST: 30%

- Hospital cost increases
- Physician cost increases
- Consolidations or mergers



TECHNOLOGY & HEALTHCARE DELIVERY: 20%

- New, high-cost technologies
- Migration of inpatient services to outpatient settings
- “Minute clinics” and urgent care centers

MEDICAL SERVICES: 20%

- Utilization growth fueled by continued economic recovery
- Aging populations
- Unhealthy lifestyles

PHARMACY: 30%

- New, high-cost specialty drugs
- Lower brand drug patent expiration rates
- Future generic drug opportunities slowing

Advancing High Quality, Affordable Care

As a nonprofit health insurer, Regence has a responsibility to keep premiums at a sustainable level. We work hard to keep administrative costs low, but cost of care (86.4 percent of the premium dollar for Regence Oregon members in 2013) is the real driver of premium costs. We also can play a role by collaborating with others to achieve better health outcomes at lower costs. That’s why we are taking a thoughtful and proactive approach in working with physician groups, hospitals, employers, and consumers to find innovative ways to achieve high-quality health care at an affordable cost.

The following programs highlight Regence efforts to increase the quality of care and reduce costs.

Regence programs have a proven track record improving the quality of care and achieving millions of dollars in cost savings. Because of these programs, in 2012 Regence Oregon experienced a 7.5 percent reduction in claims compared to what otherwise would have been expected. And in 2013, new quality improvement and cost containment initiatives in Oregon saved members \$37.7 million. As a nonprofit organization, we reinvest these savings to help keep member costs down and make care more affordable.

¹ The Centers for Medicare & Medicaid Services, cited in <http://www.usatoday.com/story/money/business/2014/03/30/health-care-spending/7007987/>

Innovation in Action

Radiology Quality Initiative

Overview

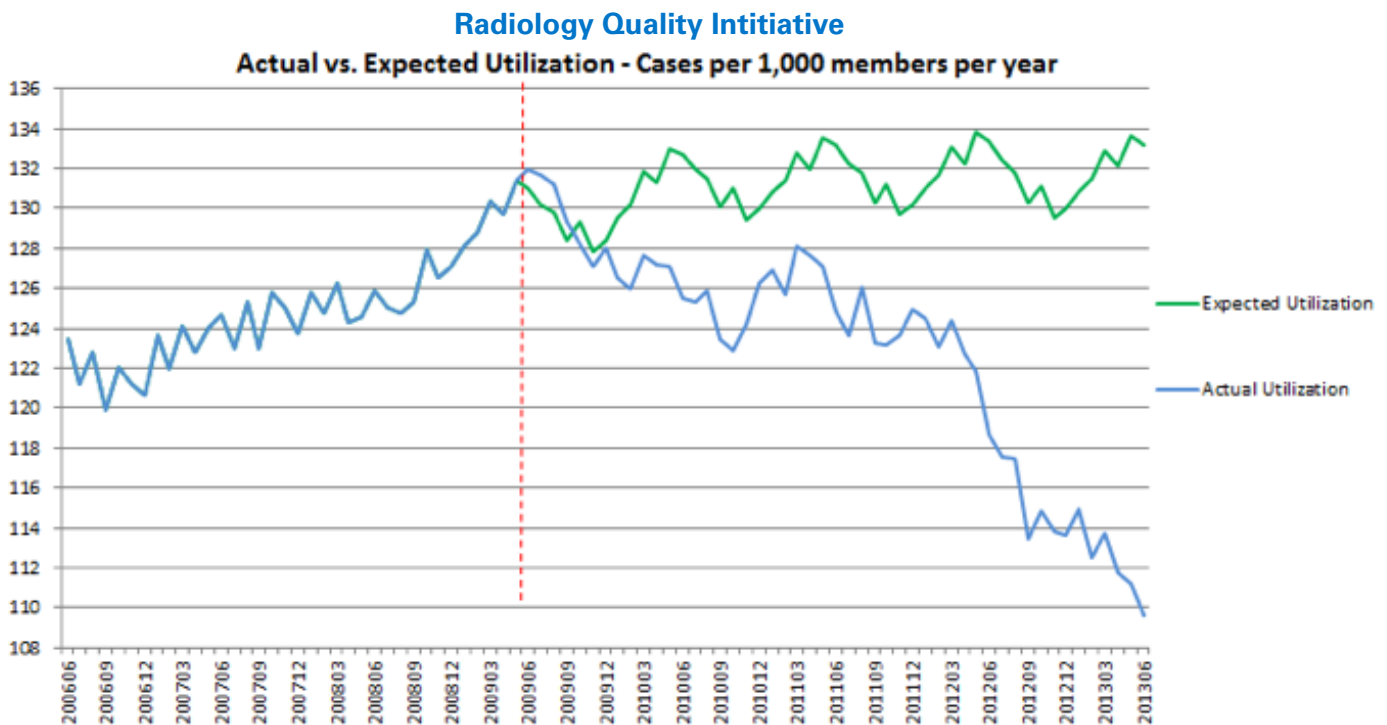
Advanced imaging services such as CT scans and MRIs are among the fastest-growing costs in health care. These services are increasing at an annual rate of 10 to 20 percent nationally. While the rapidly improving technology and clinical application of these services are the leading drivers of these increases, clinically unnecessary procedures also contribute to added costs.

Given the potentially negative clinical implications of unnecessary testing, such as exposure to high doses of radiation, and the high costs of these tests, Regence implemented the Radiology Quality Initiative (RQI) in June 2009. Under RQI, ordering or referring physicians are required to

contact Regence to obtain an authorization before scheduling an elective outpatient advanced diagnostic imaging procedure.

Results

- Each dollar spent on this program returns \$4.80 of efficiencies and savings that are reinvested on behalf of our members.
- \$11.5 million in annual savings in Oregon, and \$32 million across our four-state market.



* If the blue line (actual utilization) is below the green line (expected utilization), then actual utilization is less than expected and implies savings.

* The vertical red line represents the start of the program.

Spinal Fusions Initiative

Overview

Back pain is one of the most common reasons Americans go to the doctor, and one of the fastest-growing treatments for pain is spinal fusion surgery. According to the Agency for Healthcare Research and Quality, the number of annual spinal fusion procedures increased by 77 percent from 2002 to 2011, surpassing hip replacements.² The growth has been attributed in part to improved technology, an aging population, and a greater demand among older people for mobility. But it has also sparked a debate over whether some surgeons are performing spinal fusions that are unnecessary and potentially dangerous. The procedure fuses together two or more vertebra, often with metal rods and screws, and can result in paralysis or life-threatening complications.

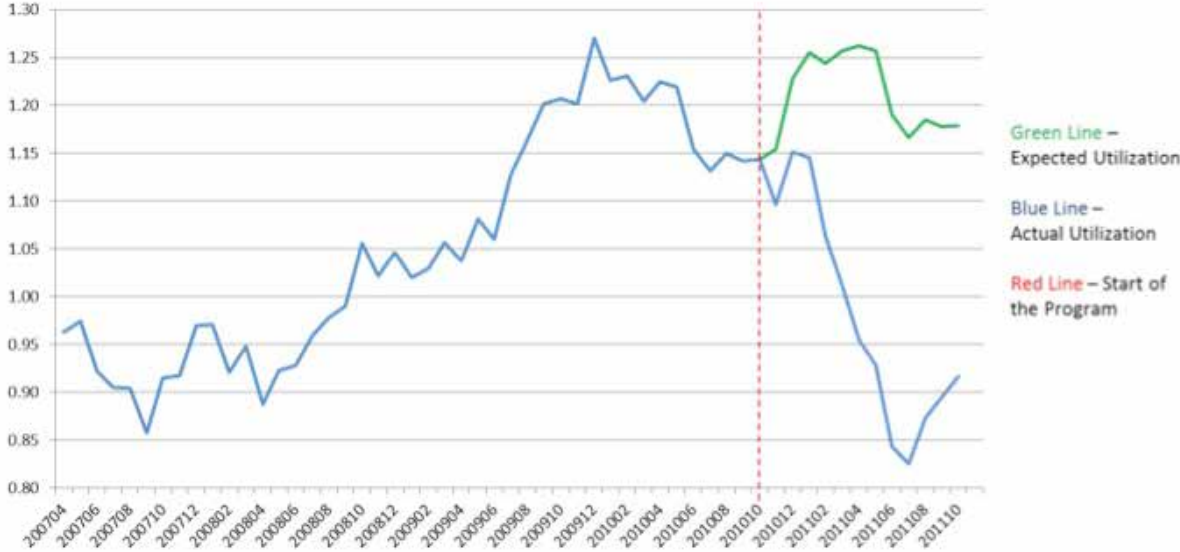
Because spinal fusion surgery potentially is an over-utilized and dangerous treatment option, Regence has implemented a program to help determine if alternative and medically preferred treatment options should be pursued.

A partnership with Dartmouth Atlas of Health Care revealed that Regence Medicare patients had a 40 percent higher occurrence of inpatient back surgery in Oregon compared to the national average. Through the implementation of the Spinal Fusions Initiative program, Regence works with doctors and members to explore alternative options to this surgical procedure, with 95.5 percent of current procedures ultimately receiving approval. With each surgery costing upwards of six figures, 4.5 percent of surgeries not being performed adds up to big savings – from preventing inappropriate surgeries and potentially dangerous complications.

Results

- \$7.6 million in annual savings in Oregon, and approximately \$19 million across our four-state market.

Spinal Fusions Initiative
Actual vs. Expected Utilization - Cases per 1,000 members per year



² Annual spinal fusion procedures increased from 260,000 in 2002 to 460,000 in 2011.

Vitamin D Testing

While Vitamin D is widely acknowledged to play an essential role in promoting bone growth and maintenance, there is limited evidence to support Vitamin D screening in average-risk, healthy populations. Reputable studies, including from the Institute of Medicine of the National Academies, consistently show there is no evidence to suggest that Vitamin D testing alters treatment decisions or improves health outcomes, including rates of Vitamin D deficiency. The Regence Vitamin D preauthorization program educates members about research findings and has reduced excessive testing, saving consumers more than \$3 million annually.

RegenceRx Evidence-Based Clinical Programs

Prescription costs account for approximately 15 percent of overall health care spending. Regence Rx is dedicated to getting the most effective medications in patients' hands at the best possible price. We have a team of clinical pharmacists who conduct unbiased, critical appraisals of all scientific evidence for each medication on the market and in the pipeline, whether dispensed by a pharmacist or administered by a physician. We use this research to suggest more affordable generic drugs when appropriate, increase medication adherence for medications that have proven benefit, and assist prescribers to select safe doses and duration of treatments.

Generics can cost 20% to 60% less than their brand-name versions

Difference between brand name Protonix and its generic equivalent, pantoprazole sodium:

\$262.97*

Medication Name	Generic?	Preferred?	Restrictions?	Total Average Cost*
PROTONIX	NO	NO	NO	\$275.74

You and your doctor may wish to consider an alternative medication below:

Medication Name	Generic?	Preferred?	Restrictions?	Total Average Cost*
PANTOPRAZOLE SODIUM	YES	YES	NO	\$7.77

Difference between brand name Actos and its generic equivalent, pioglitazone HCl:

\$256.02**

Medication Name	Generic?	Preferred?	Restrictions?	Total Average Cost*
ACTOS	NO	NO	NO	\$344.12

You and your doctor may wish to consider an alternative medication below:

Medication Name	Generic?	Preferred?	Restrictions?	Total Average Cost*
PIOGLITAZONE HCL	YES	YES	NO	\$88.10

Stats per RxPrice Guide, RegenceRx.com

*12/16/13 & **2/7/14

Every time Regence members increase their generic usage by 1%, they help save an average of **\$80 per prescription**



RegenceRx Generic Utilization Rate = 84.8% 2013YTD



Our evaluations are well regarded by others and have been referenced by the National Institutes of Health, the New York Times, Wall Street Journal and Consumer Reports. What does that mean for consumers and employers? RegenceRx formularies include proven medications that provide the best health outcomes and deliver the most value. In 2012, RegenceRx programs resulted in over \$25,000,000 in savings for Oregonians in our commercial plans.

Regence Rx Specialty Medication Program

Specialty drugs are high-cost and complex pharmaceuticals – often developed through biotech research – that increasingly are being used to treat serious medical conditions such as cancer, multiple sclerosis, rheumatoid arthritis, and hepatitis C. While many of these products represent medical breakthroughs, the costs can be enormous, with annual expenditures of \$100,000 or more. Specialty medications are used by about 1 to 2 percent of the population but can account for up to 40 percent of all prescription drug costs in a year.

The goal of the Regence Rx specialty medication program is to provide our customers access to specialty drugs at the lowest possible cost. By partnering with Walgreens Specialty Pharmacy, RegenceRx is able to offer better pricing, with drug discounts that save 2 to 3 percent on average. Because of the high cost of these drugs, this discount can save consumers hundreds of dollars per month in out-of-pocket costs. Other benefits of the

Regence Rx program to patients include:

- Clinical support with screening for drug-to-drug interactions and clinical pharmacists available 24/7 to answer questions.
- Copay assistance that can help identify financial assistance for members.
- Medication adherence programs that pair pharmacists with patients to help them understand the sometimes difficult side effects of specialty medications and encourage them to continue treatment.

Not All Programs Deliver Expected Results

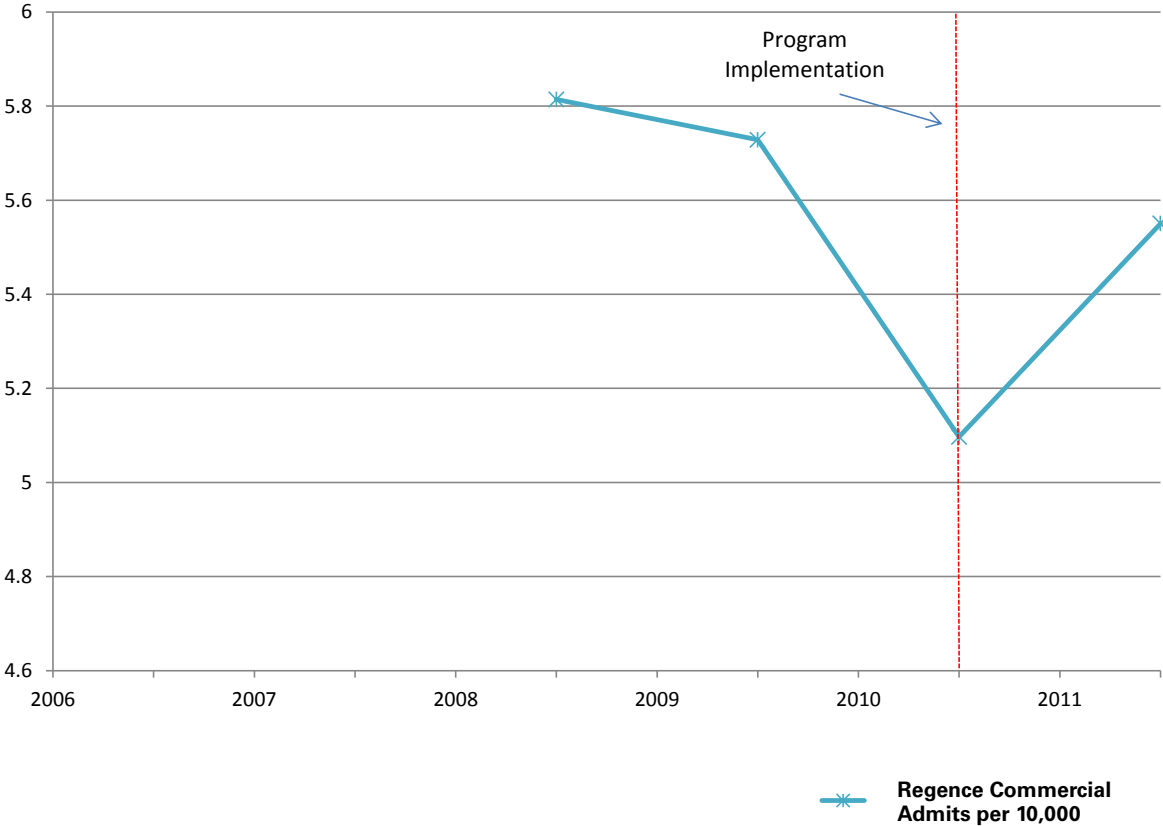
Innovation takes a willingness to experiment and time to evaluate results. Not every innovation works. When data shows that a program delivers little or no savings to the consumer or doesn't produce a better patient experience, Regence discontinues it. An example is highlighted below.

Rare Disease Management Program

In 2013 Regence discontinued its rare disease management program for 15 conditions, such as Crohn's disease, multiple sclerosis, rheumatoid arthritis, lupus and seizures.

This program was not providing the value we expected because patients already were effectively managed by their providers. The additional assistance we provided ultimately didn't justify the cost or result in significantly improved patient outcomes. Regence constantly evaluates the effectiveness of our programs. If it is determined that a program is not providing adequate value, the program is discontinued.

Rare Disease Management Did Not Reduce Hospital Admissions



Community Collaborative Efforts

Regence regularly collaborates with providers, customers, and industry groups to help drive improvements in health care, support safety and promote increased quality, including:

Support for Medical Homes

Regence has a long history in developing patient-centered medical home (PCMH) models of care. We created one of the first PCMH models in the nation for Boeing in collaboration with Mercer, which focused on providing care coordination for Boeing's sickest employees and had promising results. We are further testing this PCMH model with Regence's commercial population in multiple states and provider groups. In addition, through the Oregon Health Leadership Council, we led the way in designing and implementing the High Value Patient Centered Care study: a three-year, 14-clinic, multi-payer collaborative PCMH. In addition, Regence provided leadership in the Oregon health care community to become one of only seven markets in the nation to be awarded the Comprehensive Primary Care Initiative by the Centers for Medicare and Medicaid Services.

Incentives for Providers

Regence uses contract models with providers that reserve a portion of provider reimbursement for performance. We actively support providers who are moving to medical home models; and we promote placement of community health workers in emergency rooms by hospitals, using funding through the insurance savings that accrued to our organization.

Shared Process Models

Regence takes part in community-based collaborations made up of multiple employers and providers aimed at removing administrative friction and improving quality by implementing common workflows and information sharing for preventive care, increasing access to care, health information exchanges, administrative simplicity, and creating new models of care for complex patients.

Regence Programs Are Improving Quality and Lowering Costs

These are just a few examples of Regence's efforts, through collaboration and evidence-based research, to improve the quality of care and achieve tens of millions of dollars in cost savings for Oregonians. By avoiding unnecessary and potentially dangerous treatment options, consumers have better and safer access to more affordable care thanks to these quality improvement and cost containment initiatives. Regence will continue to evolve with innovative health programs in a continued effort to provide safe, high quality and affordable care to our members.



Regence