

Labor CONNECTION



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How Medical Costs Drive Health Insurance Premiums

The news media, blogs, pundits and policymakers are rife with stories about significant health insurance premium increases and their impact on businesses, consumers and the economy. These stories offer many valid points but what they tend not to recognize is the primary underlying cause of premium increases — the growing cost and utilization of health care services.

Blue Cross and Blue Shield of Illinois (BCBSIL) understands why Americans may be frustrated by premium increases. But it is difficult if not impossible to reduce the rate of growth in health insurance premiums when medical costs continue to increase so rapidly. As such, this article presents information about the multitude of underlying drivers of medical costs across the nation and in Illinois, and points to the future of the health system.

What Does Medical Care Cost in the U.S. and Why Is It Increasing So Rapidly?

To reduce medical costs, it is important to understand what drives them:

- **Medical inflation.** The cost of a single unit of care, from an MRI or the delivery of a baby, to an emergency room visit — has been increasing significantly faster than inflation throughout the economy as a whole.
- **Increased utilization.** Americans utilize more and more medical services each year.
- **New technologies.** New and more expensive therapeutic and diagnostic technologies, as well as devices and pharmaceuticals may be used instead of older, less expensive ones that may be as effective.

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How Medical Costs Drive Health Insurance Premiums

- **Unhealthy lifestyles.** Rapidly increasing “waist lines” and growth in other unhealthy lifestyles have led to greater incidence of chronic and expensive conditions, ranging from heart disease to diabetes. As a result, the severity of Americans’ medical conditions on average is increasing, as is the intensity of the treatment.
- **Cost shifting.** Providers “cost shift” to cover financial losses from care for patients in government programs that pay less than it costs providers to deliver care.

National Health Care Costs

The United States spends more on health care than any other nation.¹ In total, medical costs nationally are approaching \$2.4 trillion annually — nearly \$8,000 a year for every man, woman and child in America. In general, federal government data confirms that rising medical costs are driven by increased spending on hospital care, physician services and prescription drugs.

National and Unique Factors in Illinois Have Caused Local Medical Costs to Increase Significantly

Like the nation as a whole, Illinois faces similar upward pressure on medical costs. However, additional factors make the situation here unique, including:

- Illinois has 47 coverage mandates — more than most other states. It is important to understand that each mandate adds to the price of health insurance premiums.
- A recent U.S. government report on medical imaging found that in 2008 Illinois hospitals provided double chest CT scans twice as often as hospitals did nationally.²
- Research by the Dartmouth Medical School in New Hampshire showed that medical care for Chicago-area Medicare patients costs 25 percent more than the national average.³
- In Chicago, chronically ill patients return to the hospital after they are discharged more often than in any other place.³
- Illinois has the 27th highest rate of adult obesity in the nation, at 25.9 percent, and the 10th highest rate of overweight among youth ages 10 to 17, at 34.9 percent.⁴

Average billed charges for BCBSIL members for the following services:

Hospital stay	\$12,700
Emergency room visit	\$3,025
C-Section OR natural birth	\$13,600
Shoulder MRI	\$1,400

*June 2010

Unhealthy Lifestyles Cause Rapid Rise in Chronic Conditions

Lifestyles also have a significant impact on health insurance premiums. In fact, five of the top 10 claims BCBSIL pays are related to obesity. In recent years, the proportion of BCBSIL members with chronic and serious conditions, such as type 2 diabetes, atherosclerosis and asthma, has increased greatly.



Cost Shifting due to Uninsured, Public Payers

Cost shifting by providers to cover financial losses from care for patients in government programs ultimately increases commercial health insurance premiums. In addition, given Illinois' financial situation, some payments to providers have been delayed.

The Future Starts Now

The Affordable Care Act already is having a significant impact on the health care system and marketplace. The wave of change will crest in 2014 when the Affordable Care Act goes into full effect and as many as 31 million currently uninsured Americans gain access to the health system as Medicaid expands and health insurance exchanges go live⁵.

Getting from 2010 to 2014 will require new approaches and innovative thinking that will change how consumers, providers, health insurers and others approach access to and payment for services. Reining in costs in a smart way that enhances quality and accountability and reduces growth in costs is a top priority for BCBSIL, which already is working collaboratively with health care providers and other stakeholders to prepare for the Affordable Care Act's full implementation.

Claim Category	Per Member per Month (PMPM)*
Inpatient (facility)	+7.1%
Outpatient (facility)	+12.6%
Professional	+8.4%
Rx	+6.6%

*Per Member Per Month (PMPM) is the average amount of dollars spent for each enrollee, each month.



Now more than ever — businesses, consumers, policymakers, physicians, hospitals, pharmaceutical companies, medical device manufacturers and health insurers — must work together to enhance the quality of care and control growth in medical costs. This is a great challenge, but one we must meet if we are going to manage the high cost of health care here in Illinois and across the country.

— Karen Atwood, President, BCBSIL



¹Healthcare Trends in America: A Reference Guide from BCBSA (2009 Edition).

²"New government report raises questions about CT scans at Illinois hospitals," *Chicago Tribune*, July 11, 2010.

³"Chicago-area hospitals sacrifice revenue as they prepare for health care reform," *Crain's Chicago Business*, July 12, 2010.

⁴"F as in Fat: How Obesity Policies are Failing in America," Trust For America's Health and the Robert Wood Johnson Foundation, 2009.

⁵Congressional Budget Office and Committee on Taxation, Cost Estimate, March 20, 2010.

Someone You Should Know:

Jorge Ramirez, President of the Chicago Federation of Labor



In this issue of *Labor Connection*, we are spotlighting Jorge Ramirez, newly elected president of the Chicago Federation of Labor (CFL). The 114-year-old CFL is dedicated to organizing efforts to protect workers' rights in the workplace. Ramirez shares his thoughts on the current labor industry and where it may lead in 2011 and beyond.

Prior to joining the CFL as Secretary-Treasurer in 2006, Ramirez was elected Vice President and served as Executive Director of Local 1546 of the United Food and Commercial Workers International Union, which represents nearly 30,000 members in Chicago and throughout Illinois.

A Silver Lining

In the midst of one of the bleakest economic environments in years — not only for the nation, but for Illinois as well — Ramirez sees reason for hope. Illinois has recently seen an increase in jobs creation, a move that bucks the national trend. Part of the uptick can be pegged to myriad construction projects triggered by \$31 billion the state received from the Illinois Jobs NOW! plan.

Ramirez says Illinois is seeing the largest number of bid lettings in state history for construction of roads, bridges and rail initiatives on the heels of the federal capital improvements funds. It couldn't have come at a more needed moment, he says. "There are studies that note that for every construction job out there, you create three or four other jobs in the economy," he says. "There are great opportunities for organized labor moving forward ... to help build a healthy middle class. And I think once folks start to realize that, they'll see there's a good reason to come together as a labor community."

But the labor environment today is markedly different than the environment that existed prior to the beginning of the recession. Employers are streamlining and reducing their work forces to cut costs. Consequently, it is incumbent upon the labor community to modify the way it strives to reach its goals and objectives. While worker productivity has increased, real wages, when indexed for inflation, have declined, he says. "It's bad news for the common worker, but I think there are rays of hope for workers when they realize that, in a union environment, you have a chance to earn a better wage — with benefits. Unions are still very relevant in the discussion here," he adds.

Big Projects on the Horizon

There are two high-speed rail projects being discussed that could run through Chicago — a federally funded high-speed rail system that would make Chicago the hub for the Midwest (including updating the tracks from Chicago to Springfield), as well as an express rail service from the Loop to O'Hare that would be privately funded.

"High-speed rail is going to happen," says Ramirez, who is a member of the Metropolitan Planning Council's Board of Governors and the O'Hare Express Blue Ribbon Committee. "It's something Senator Dick Durbin (D-IL) is adamant about ... The mayor is convinced that Chicago be the first city in North America to have it."

Ramirez believes these large scale endeavors would be boons for the labor community, residents and international business travelers visiting the Windy City.

Since 2008 Ramirez has served as the Vice-Chair of the Cook County Health and Hospital System Board of Directors. This board is overseeing the reinvention of the Cook County health care system which provides medical care to citizens of Illinois in the county. With a budget of almost \$1 billion dollars annually the health system delivers care through four separate hospitals, the Cook County Department of Public Health and 16 Ambulatory and Community Health Network Clinics. "I think we do a good job now, and in some areas we do an excellent job," he says. "But we also have to acknowledge, in some areas, we need a lot of work. We just passed a strategic plan that's designed toward improving the way we present ourselves and offer our services to the community."

Where There's a Will, There's a Way

Ramirez says the catalyst for a labor-driven recovery is a “political will” to create long-term job programs. He particularly sees a dire need to reignite lending to small businesses. “Right now, employers throughout the United States and banks are holding more cash on hand than they’ve had in over two decades, and they need to start reinvesting into business: into hiring people, into expanding the economy,” he adds. Otherwise, he says, the fledgling boom may fizzle out.”

Background

The son of Mexican immigrants, one of Ramirez’s first stints was at the meat manufacturing United Food and Commercial Workers Union Local 1546. The local oversaw everything from packing houses, meat manufacturing and processing, grocery stores and drug retailers, to nursing homes, leather processing plants and auto-related plants. It was a heavily immigrant-staffed industry that Ramirez says formed his perspective on labor. “I think a lot of that has shaped me for the issues of the day now,” he adds. “It’s a natural fit.”

Conclusion

Chicago is blessed with a solid base of high-skilled manufacturing jobs and workers, which are the kinds of positions that make for a sturdy middle-class existence, he says. These are positions that are very unlikely to be moved off shore. But that silver lining is susceptible to tarnish.

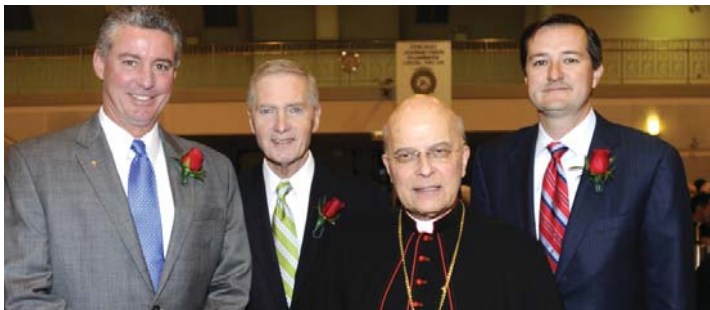
In addition to encouraging long-term jobs programs, the local labor community also must begin laying the foundation for the future industry dedicated to green technology, such as manufacturing solar panels, windmills, hydro-technology mills and more. “We need to keep those high-skilled manufacturing jobs,” Ramirez stresses.

“The danger, and what we need to get ahead of, is that 90 percent of (the highly skilled work force) will be retired in the next six years,” he predicts. “If we don’t do something to pipeline into that existing high-skilled manufacturing, then we will lose it forever.”

Ramirez is a dedicated family man who is married with four young boys. In his free time, Ramirez enjoys spending time with his family, watching his sons play hockey and cheering on the Blackhawks.

This and That

BCBSIL congratulates the 2010 recipients of Rerum Novarum award: **Jim Sweeney, Tom Ricketts, Jim Ryan** and **Rev. James Presta**. The 20th Annual Seminary Salute was held at Plumbers’ Union Hall in October.



Jim Sweeney, president/business manager of Local 150 of the International Union of Operating Engineers representing labor; Jim Ryan, former Attorney General for the State of Illinois; and Tom Ricketts, Chairman of the Chicago Cubs, and Chairman and CEO of Chicago-based Incapital LLC were honored by Cardinal Francis George, O.M.I. with the Rerum Novarum Awards.



Representatives from BCBSIL attended this year's Rerum Novarum, including (left to right) Matt Gibson, Labor Account Executive; Kevin Chesniak, Senior Manager, Labor Accounts; Rick Allegretti, Vice President of Local and Specialty Markets; Karen Atwood, President, BCBSIL; Dick Quigley, Director, Labor Accounts; Angela McMillin, Labor Account Executive; and Andy Seymour, Labor Account Executive.

Congratulations to **Terry Hancock**, President, Teamsters Local 731 on being awarded the Labor Leader Excellence Award by the Italian American Chamber of Commerce-Midwest at their annual event held at the Palmer House Hilton in September.

The Sobering Costs of Alcoholism

BCBSIL works to provide information that helps Fund managers manage and maintain their costs for health care. Identifying preventable illness and injury is one way; providing solutions for problematic conditions is another.

The U.S. Department of Health and Human Services Substance and Mental Health Services Administration (SAMHSA) reported 79.2 percent of adult heavy drinkers are employed. Workers in construction and mining, wholesale and retail industries are 25 to 45 percent more likely to have a serious alcohol problem than the average U.S. worker.

Yet, heavy drinkers do not abandon the effects of their addiction before going to work. Whether drinking during the workday or nursing a hangover, alcohol abusers dramatically impact an employer's bottom line.



The National Drug-Free Workplace Alliance reported up to 40 percent of industrial fatalities linked to alcohol abuse and alcoholism, and 38 to 50 percent of all workers' compensation claims. Alcohol and substance abuse is considered the third leading precursor to workplace violence. Light and moderate drinkers cause 60 percent of tardiness, absenteeism and poor work quality, while heavy drinkers and alcoholics caused the remaining 40 percent. Estimates for annual productivity losses vary — from the mid-30s to well over 100 billion dollars annually.

Workers in construction and mining, wholesale and retail industries are 25 to 45 percent more likely to have a serious alcohol problem than the average U.S. worker.

If the employee is required or scheduled to perform safety-sensitive duties, such as operating heavy machinery, driving, performing patient care or working with explosives, the employee must be restricted from performing his or her duties. If the employee is disruptive to the workplace, he or she should be removed from the worksite. This may involve security escorting the employee to a health unit, the Employee Assistance Program (EAP), or home via taxi or a family member. Due to serious liability issues, do not send the employee home alone, or allow him or her to drive.

Additional information about how to manage alcohol and substance abusers may be obtained through your EAP and state department of labor.

Workplace alcohol use and impairment affect an estimated 19.2 million Americans. Family members of addicts are less productive, more distracted and absent.

Sources: U.S. Department of Labor and Magellan Health Services, Inc.



Welcome NEW LABOR CLIENTS

**Plumbers and Steamfitters Local 247
Health and Welfare Fund**
Pineville, LA
Effective: Oct. 1, 2010

**Pipefitters Local Union # 195
Health and Welfare Trust**
Houston, TX
Effective: Aug. 1, 2010

From your friends in
Labor Affairs

HAPPY
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2010



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