

Strengthening RI's Healthcare System **together.**



2012: A Year of Change for Blue Cross & Blue Shield of Rhode Island



Left: Chuck LoCurto, Board Chair
Right: Peter Andruszkiewicz, President & CEO

Over the past year, we have seen firsthand the contradictions of the new era of healthcare delivery in our country. This period of transition was marked by groundbreaking innovation in provider payment models and tempered by unpredictable financial risks.

Here in Rhode Island, there has never been more collaboration among providers, regulators, and payers on improving quality and controlling costs. This rapidly shifting business model has brought dizzying changes to the provider landscape. We saw proposed consolidation among community hospitals and emerging adoption of new contracting and provider reimbursement models.

But even with the promise of tomorrow's "transformed" healthcare delivery system, the reality of today's fee-for-service system continues to drive poor financial performance. Transformation will take time as new payment models with incentives for quality, safety, and health outcomes begin to take effect. Right now, annual increases in healthcare costs continue to make healthcare premiums unaffordable for more Rhode Islanders each year.

With those increases, the premium dollars Blue Cross collected in 2012 were not enough to cover the cost of our members' medical care. We closed the year with a disappointing underwriting loss of \$50.7 million, most notably due to a sharp and unexpected 22 percent increase in hospital admission costs.

Our 2012 financial results make clear the importance of adequate premiums to support appropriate reserve levels and safeguard the long-term financial stability of the company for our members. While we successfully continued our multi-year initiative to streamline operations and cut waste—achieving a \$30 million reduction in annual expenses since 2009—it's evident the only path to predictable and sustainable affordability is to change the way healthcare is delivered and paid for in our state.

We're pleased to report that notable progress is happening, through the collaborative efforts of many key players in our healthcare system. In 2012, we:

- Reached agreements with both major hospital systems that will lead to new payment models.
- Introduced new ways to help our members become better educated consumers.
- Worked with state agencies to begin preparing our customers for the Rhode Island Health Benefits Exchange, a new marketplace created by the Affordable Care Act.
- Launched new health plans that address the need for more affordable premiums and improved navigation of care.
- Partnered with community agencies to increase access to healthcare and improve healthcare quality.

We'll continue to build upon this progress in 2013, which promises to be a year of many changes as we head toward implementation of the Affordable Care Act's Health Benefits Exchange. We know today's healthcare environment raises questions about the future. Many answers will only come with time, but in the following pages, we've tried to address some of your most pressing questions.

No matter how uncertain the future is for healthcare, we will remain focused on our underlying purpose. We're here to serve the Rhode Island community—not shareholders—through leadership and collaboration, and we'll continue to do so in the years to come.

Sincerely,

Peter Andruszkiewicz, *President and CEO*
Chuck LoCurto, *Board Chair*

**Top row
from left to right:**

SCOTT DUHAMEL
SAMUEL HAVENS
MEREDITH CURREN
CHUCK LoCURTO
JOHN LANGENUS
CAROL MUMFORD
MICHAEL D'AMBRA
MERRILL SHERMAN
WARREN LICHT, M.D.
PETER HAYES
FREDRIC CHRISTIAN, M.D.
ELIZABETH LANGE, M.D.
JOHN MAGUIRE

**Bottom row
from left to right:**

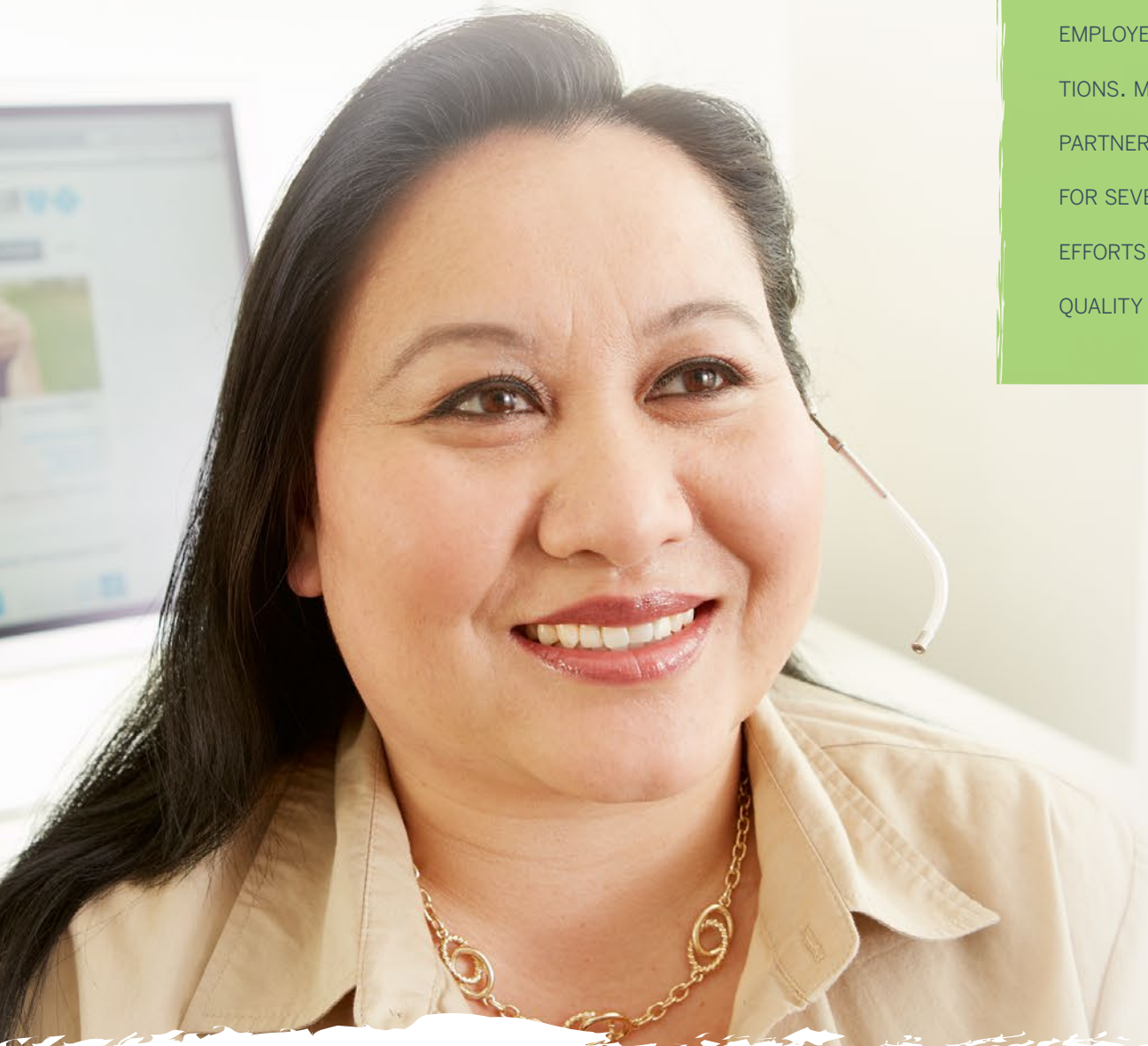
JAMES HARRINGTON
JUANA HORTON
ROBERT NORTON
ANNE POWERS
DENISE BARGE

Not pictured:

RANDY WYROFSKY



What is Blue Cross doing to improve healthcare quality and make premiums more affordable today?



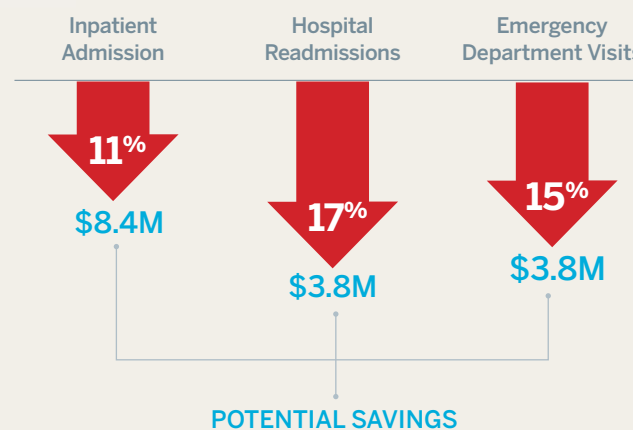
EVERYTHING WE DO AT BLUE CROSS IS DESIGNED TO MAKE HEALTHCARE BECOME SAFER, HIGHER QUALITY, AND MORE COST EFFECTIVE. TO HELP TRANSFORM OUR HEALTHCARE SYSTEM, WE'RE PARTNERING WITH DOCTORS, HOSPITALS, REGULATORS, MEMBERS, AND EMPLOYERS ON LONG-TERM SOLUTIONS. MANY OF THESE INNOVATIVE PARTNERSHIPS HAVE BEEN IN PLACE FOR SEVERAL YEARS, AND THOSE EFFORTS ARE ALREADY IMPROVING QUALITY AND REDUCING COSTS.

Leading the nation in revolutionizing primary care

Our belief in the importance of strong primary care is demonstrated by the \$28 million we have invested in the development of patient-centered medical homes (PCMHs). As a result of our support, Rhode Island has the highest number of primary care practices per capita that are recognized by the National Committee for Quality Assurance. By the end of 2012, over 300 Rhode Island-based primary care physicians were caring for more than 110,000 Blue Cross members in PCMHs. Continuing to work with primary care physicians and the Rhode Island Chronic Care Sustainability Initiative (CSI-RI), we plan to increase the number and the effectiveness of PCMH practices in 2013.

The PCMH model ensures primary care physicians are supported by "care teams" that include a physician and nurse care manager, and may also include pharmacists, behavioral health professionals, nurse practitioners, and physician assistants. Patients in PCMHs have access to primary care every hour of every day. This helps avoid after-hour emergency department visits, promotes better patient adherence to prescription drugs, and improves coordination between a patient's various doctors. As shown in the chart below, the high quality of care provided by PCMHs can result in lower costs.

BCBSRI PCMH MEMBERS VS. NON-PCMH MEMBERS



Introducing innovative health plans that reward healthy living

Being active, getting preventive care, taking care of chronic conditions—these are all ways to stay healthy and lower healthcare costs. This year, we introduced plans for individuals and businesses that reward healthy choices. These plans include benefits such as:

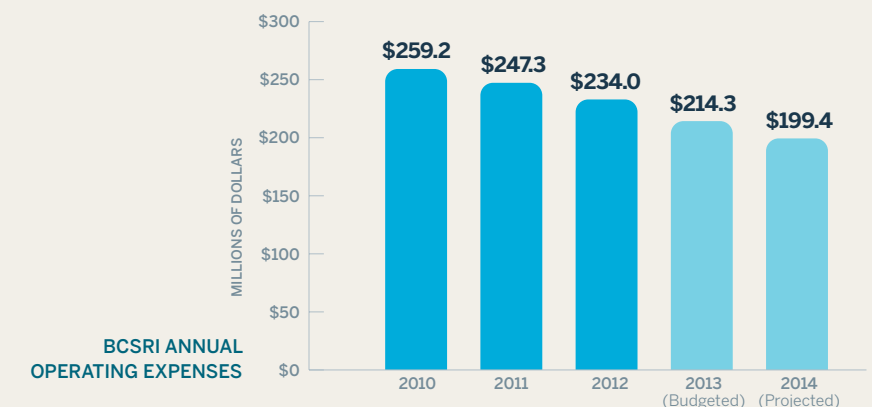
- Reimbursements for gym memberships.
- Reduced copayments for drugs used to treat chronic conditions.
- Access to special programs for quitting smoking, losing weight, managing asthma, and more.
- No copayments for PCMH visits.

We expect that our new SelectRI network option—which features PCMHs—will reduce premiums by up to 15 percent for many Rhode Island businesses in 2013.

Streamlining operations and lowering operating costs

While finding new and innovative ways to reduce medical expenses is the only way to significantly impact the cost of health insurance, we're also focused on controlling costs across the board. Our annual operating expenses account for only 14 cents of each premium dollar our customers pay, but we are still continually focused on lowering them.

Since 2009, Blue Cross has reduced expenses by a total of 17 percent, resulting in \$25 million in premium savings for our customers. This was achieved through renegotiating vendor contracts, implementing new technology, and reengineering our internal processes. By 2014, we plan to expand our annual savings to almost \$60 million per year compared to 2009.



How is Blue Cross improving quality and affordability for the future?



IN OUR CURRENT HEALTHCARE SYSTEM, THE MAJORITY OF DOCTORS ARE STILL PAID BASED ON EACH VISIT OR PROCEDURE, NOT FOR HELPING PATIENTS GET HEALTHIER. TO TRULY CHANGE OUR HEALTHCARE SYSTEM, WE NEED TO CREATE A NEW PAYMENT MODEL—ONE THAT REWARDS IMPROVED PATIENT OUTCOMES AND QUALITY INSTEAD OF THE NUMBER OF SERVICES PROVIDED. WE ALSO NEED TO ENSURE THAT OUR STATE HAS THE INFRASTRUCTURE TO SUPPORT OUR FUTURE HEALTHCARE SYSTEM, INCLUDING AN ADEQUATE SUPPLY OF PRIMARY CARE PROVIDERS AND INTERCONNECTED ELECTRONIC HEALTH RECORDS.

Paying providers based on quality, not quantity

Improved healthcare quality. Improved patient safety. Slower increases in healthcare costs. That's how our members will benefit from the new payment and care models we are creating with our provider partners. In 2012, we entered into innovative partnerships with hospital and primary care groups.

Care New England

Nearly all hospitals in Rhode Island participate in our hospital quality program. Our new long-term partnership with Care New England goes further to advance health system transformation. A letter of intent outlines a five-year schedule where greater percentages of the annual payment increases are tied to meeting the quality measures. As part of this partnership, we'll also work together to advance the role of the primary care physician and pilot the development of multidisciplinary and community-oriented care teams. These teams will be rewarded based on their ability to improve health, satisfy their patients, and make care more affordable.

Coastal Medical

Coastal Medical is the largest primary care provider in the state and a PCMH supported by Blue Cross. Through a shared-savings agreement, Coastal Medical becomes eligible for additional financial compensation if they achieve best-in-class healthcare quality metrics established by the National Committee for Quality Assurance and then manage the total cost of care better than the rest of Blue Cross's primary care physician network.

Helping recruit primary care providers to Rhode Island

Primary care providers serve as coordinators of care, helping to improve quality and affordability for their patients and the healthcare system as a whole. Nationwide, there is a shortage of primary care providers that is expected to worsen as more people become insured under federal healthcare reform. To ensure an adequate supply of primary care providers in our state, we are supporting the programs on the next page.

Primary Care Physician Loan Forgiveness Program

In 2009, we joined the Rhode Island Foundation and the Rhode Island Medical Society to create a \$1.1 million loan forgiveness pool. We've since contributed over \$850,000 to continue this important venture.

State Loan Repayment Program

The Rhode Island Primary Care Educational Loan Repayment program helps recruit new primary care professionals to meet the healthcare needs of Rhode Islanders.

Nurse Residency Program

In 2012, we joined The Rhode Island Action Coalition for the Future of Nursing, along with other public and private partners, to fund Rhode Island's first clinical nursing residency, which will provide new and unemployed nurses with additional skills in traditional acute as well as non-acute care settings.

Supporting healthcare technology

By using electronic health records, doctors and their staffs can identify redundant testing, drug interactions, and patients who don't receive needed

tests. In an emergency, electronic health records can provide life-saving information. Ultimately, unaffiliated doctors, hospitals, and other providers will be able to communicate and coordinate through their electronic health records systems, providing a truly integrated system of care.

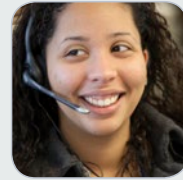
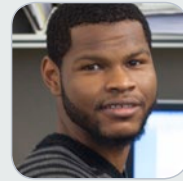
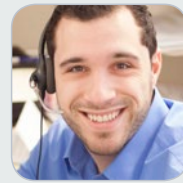
EHR Grant Program

In 2012, we contributed more than \$160,000 to help primary care providers and community health centers implement electronic health records. This program has provided over \$500,000 in funding since 2009.

Rhode Island's Health Information Exchange: CurrentCare

This secure electronic network gives doctors and other healthcare providers access to patients' most up-to-date health information—such as test results from medical labs, prescription drug records, and hospitalizations—so they can receive the best possible care. We've made a significant financial commitment over several years to support this important resource, which is contributing to the coordination of care across the state.

How is Blue Cross making healthcare easier and more customer friendly?



THE COMING HEALTHCARE MARKET WILL FEATURE A NEW ERA OF CONSUMERS PURCHASING HEALTH INSURANCE, SOMETIMES WITHOUT THE BENEFIT OF AN EMPLOYER'S OR BROKER'S GUIDANCE. THAT'S WHY WE'RE HELPING TO IDENTIFY RELIABLE, USABLE INFORMATION ON COST, QUALITY, AND HEALTHCARE BENEFIT OPTIONS AND MAKING IT AVAILABLE TO OUR CUSTOMERS. THESE EFFORTS WILL EXPAND IN 2013 AS WE CONTINUE TO WORK WITH REGULATORS, LOCAL PHYSICIANS, AND HEALTHCARE FACILITIES. HEALTHCARE IS CHANGING RAPIDLY, AND WE'RE HERE TO SERVE AS A GUIDE.

Offering online cost and quality tools

With healthcare, like anything else, people want the best care at the lowest price. Having access to information about cost and quality can help consumers achieve better health outcomes and a better patient experience. By logging in to BCBSRI.com, members can:

- Receive cost estimates for common healthcare services and procedures.
- Read and write reviews of providers they have recently seen using our online physician review tool.
- Evaluate primary care physicians on certain quality measures.
- Identify doctors recognized for higher quality through our Blue Physician Recognition designation.

In 2013, we'll be introducing another tool on our website, the Member Out-of-Pocket Estimator. It will show how a member's deductible, copayment, and/or coinsurance applies to a specific service—and how costs for different doctors/hospitals compare.

Partnering to improve quality of care and outcomes

All but one of Rhode Island's hospitals are part of our quality program, and we are also working with physicians and professional societies in the specialties of non-invasive and invasive cardiology, dermatology, gastroenterology, and orthopedics to measure and report quality in a meaningful way.

In 2013, we'll also be providing that information to primary care physicians in PCMHs. This will help PCPs refer patients to providers who offer high-quality, cost-effective care as well as help PCPs better coordinate patients' care.

THE RHODE ISLAND HEALTH BENEFITS EXCHANGE

Beginning in October 2013, Rhode Island individuals will be able to purchase health insurance through the Health Benefits Exchange, a new marketplace created by the Affordable Care Act. We're collaborating with the state to help ensure customers have tools and information on everything they need to know to purchase on the Exchange. In addition, we've been participating in educational sessions about the impact of this new marketplace—as well as getting ready to offer our plans on the Exchange. There's a lot to do and little time, but we're looking forward to seeing more Rhode Islanders with the coverage they need.



How is Blue Cross improving the health of the RI community?



BEING LOCAL AND NONPROFIT LETS US DO WHAT WE LOVE—HELP ALL RHODE ISLANDERS TO BE HEALTHIER. WE PARTNER WITH ORGANIZATIONS DOING AMAZING WORK IN OUR COMMUNITY, INCLUDING INCREASING ACCESS TO CARE AND IMPROVING HEALTHCARE QUALITY. OUR EFFORTS FOCUS ON OUR NEIGHBORS WHO ARE UNINSURED, UNDERINSURED, AND MOST IN NEED.

2012 BY THE NUMBERS

750 *volunteers*

6,316 *volunteer hours*

\$137,625 *is the value of volunteer hours**

\$193,644 *in employee fundraising*

\$884,000 *in sponsorships and charitable donations to* 140 *agencies*

180 *agencies served by BCBSRI in 2012 through in-kind, volunteer, or financial support*

*At \$21.70 per hour according to the Independent Sector.

Funding care for those in need

Through our BlueAngel Community Health Grants, we awarded \$200,000 to eight community-based agencies. This funding supports programs that break down barriers to healthcare created by cost, culture, miscommunication, system structure, and lack of education. Take a look at a few of their accomplishments:

- The Providence Community Health Center's urgent care center, PCHC Express, provided over 3,500 people with high-quality primary care, regardless of their ability to pay.
- Thundermist Health Center provided comprehensive case management to over 2,000 chronically homeless individuals.
- Ready to Learn Providence helped over 7,000 children achieve the health milestones needed to arrive in school ready to learn. Their model helps reduce health disparities.

Supporting the safety net

Offering primary care to the uninsured helps keep individuals healthy and prevents costly emergency room visits. We contributed significant funding to the Rhode Island Free Clinic and Clinica Esperanza/Hope Clinic, which provides free medical care to thousands of uninsured Rhode Islanders. We also awarded a grant to the Rhode Island Oral Health Foundation to support the Mission of Mercy event, a free two-day dental clinic for approximately 600 uninsured or underinsured Rhode Islanders with urgent oral health needs.

Holding free wellness events

To increase access to healthcare, we hold many free health screenings and health education events throughout the state. Our community flu initiative provided 1,069 flu vaccinations to Rhode Islanders, 971 of whom were uninsured. We also enjoy bringing health services to community events such as Telemundo's La Feria de la Familia and RI PrideFest.



THE LARGEST SINGLE-COMPANY,
ONE-DAY VOLUNTEER EVENT IN
THE STATE'S HISTORY



On September 27, 2012, we held our first annual Blue across Rhode Island event, which was a company-wide day of service. Over 740 employees donated more than 3,900 hours to 13 nonprofits. Here are a few highlights of what our employees did:

- Administered free health screenings at Clinica Esperanza, including free blood pressure, glucose, and cholesterol checks as well as “talk to the doctor/ pharmacist” sessions.
- Installed playground equipment and tended to the community garden at the Kingstown Crossing location of Crossroads Rhode Island.
- Painted and fixed well-used areas at Progreso Latino.
- Gathered excess produce (that would have otherwise gone to waste) for distribution to local food pantries as part of Farm Fresh Rhode Island.

2012 NATIONAL PHILANTHROPY DAY AWARD

The Rhode Island chapter of the Association of Fundraising Professionals (AFP-RI) named Blue Cross “Outstanding Philanthropic Corporation 2012.”



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We truly look at **Blue Cross** as a partner in our work to improve the lives of the kids that need us the most. They are much more than just another ‘big’ company we come to on bended knee, but rather are truly invested in **improving the lives of Rhode Islanders!**

—ERIN GILLIATT, BOYS & GIRLS CLUB OF EAST PROVIDENCE

Nearly 150 students were able to do **fitness testing** and work towards their **personal goals**. This project would normally take our fitness teacher more than three months to complete!

—JEANNIE D'AGASTINO, HIGHLANDER CHARTER SCHOOL

Farm Fresh RI has **benefited greatly** from our relationship with Blue Cross, not only through this day, but through Market Mobile and other **community grant opportunities** that we have been lucky to receive.

—SHERRI GRIFFIN, FARM FRESH RHODE ISLAND

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2012 Financial Report (in thousands of dollars)

INCOME

In 2012, we recorded \$1,558,115 in premiums from members (individuals and employers). We also earned \$16,665 in investment income.

Premium Income		Investment Income		Total Income
\$1,558,115	+	\$16,665	=	\$1,574,780

EXPENSES

From this total income, \$1,374,804 was used for medical and dental claims for our members. This amount accounted for 88.2% of premiums collected. The company also spent \$234,021 on administrative expenses or 15.0% of premiums collected.

Payments to Providers		Administrative Expenses		Other Expense		Total Expenses
\$1,374,804	+	\$234,021	+	\$7,490	=	\$1,616,315

NET GAIN/(LOSS)

Higher than expected payments to hospitals and other providers resulted in a net loss of (\$41,536).

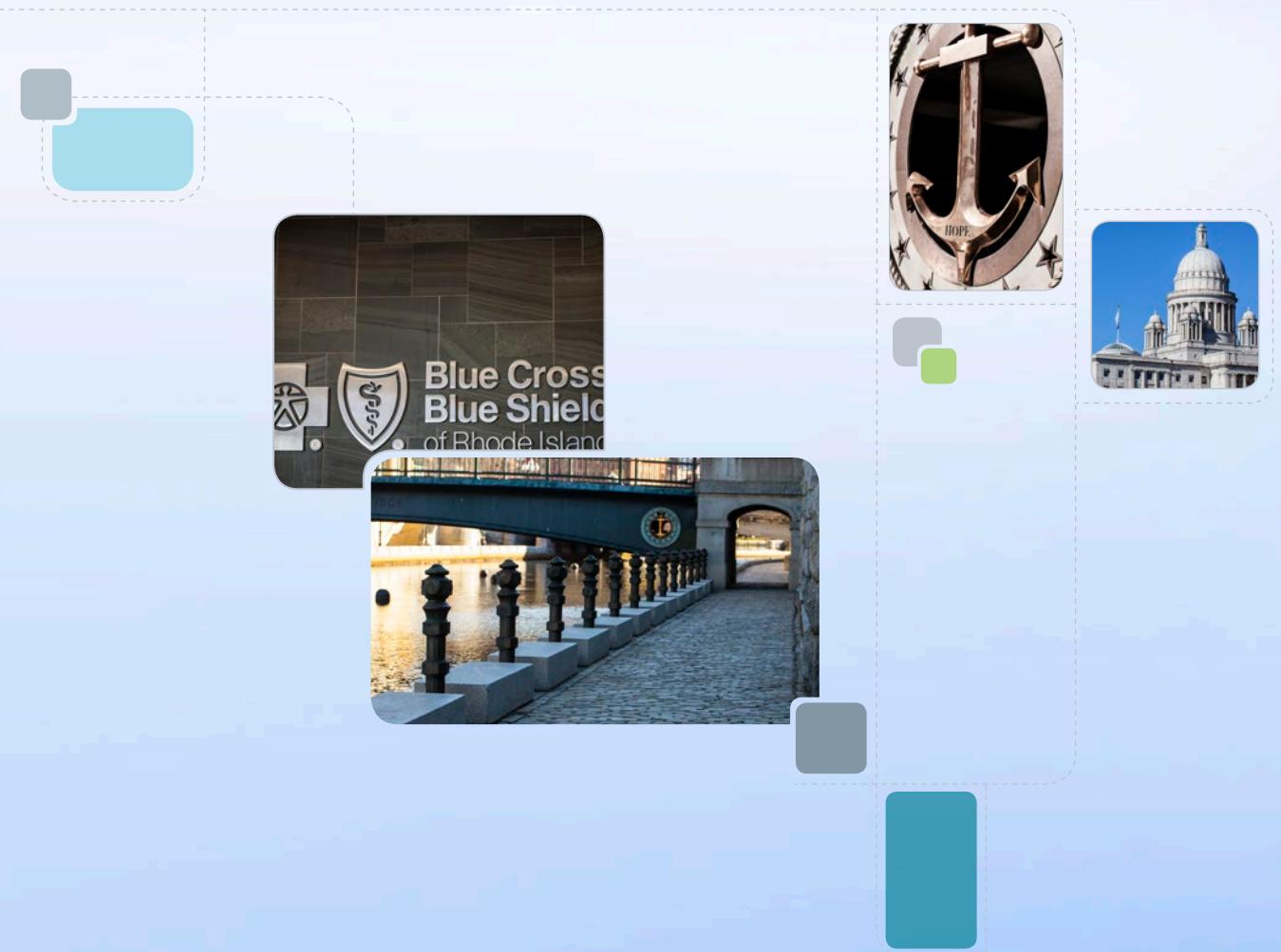
Loss from Operations		Premium Deficiency Reversal		Other Gains (Losses)		Net Gain (Loss)
(\$50,710)	+	\$0	+	\$9,174	=	(\$41,536)

RESERVES

In 2012, we subtracted the net loss of (\$41,536) from our reserve fund. As a result, reserves held for the protection of our members totaled \$260,183 at year-end. At only 16.7% of annual premium revenue, BCBSRI's reserves are below the 23% minimum recommended by the Office of the Health Insurance Commissioner.

Total Reserves		Average Daily Benefit Payments to Providers		Average Daily Administrative Costs		(Number of days we could pay Benefits & Administrative Costs)
\$260,183	/	(\$3,767)	+	\$641)	=	59 Days

This formulation represents unaudited results utilizing Statutory Accounting Principles. The Blue Cross and Blue Shield Association licenses Blue Cross & Blue Shield of Rhode Island to offer certain products and services under the Blue Cross and Blue Shield brand names. Blue Cross & Blue Shield of Rhode Island is an independent organization governed by its own Board of Directors and solely responsible for its own debts and other obligations. Neither the Association nor any other organization using the Blue Cross and Blue Shield brand names acts as a guarantor of Blue Cross & Blue Shield of Rhode Island's obligations. A copy of Blue Cross & Blue Shield of Rhode Island's most recent audited financial statements is available on request to:





Blue Cross & Blue Shield of Rhode Island is an independent licensee of the Blue Cross and Blue Shield Association.