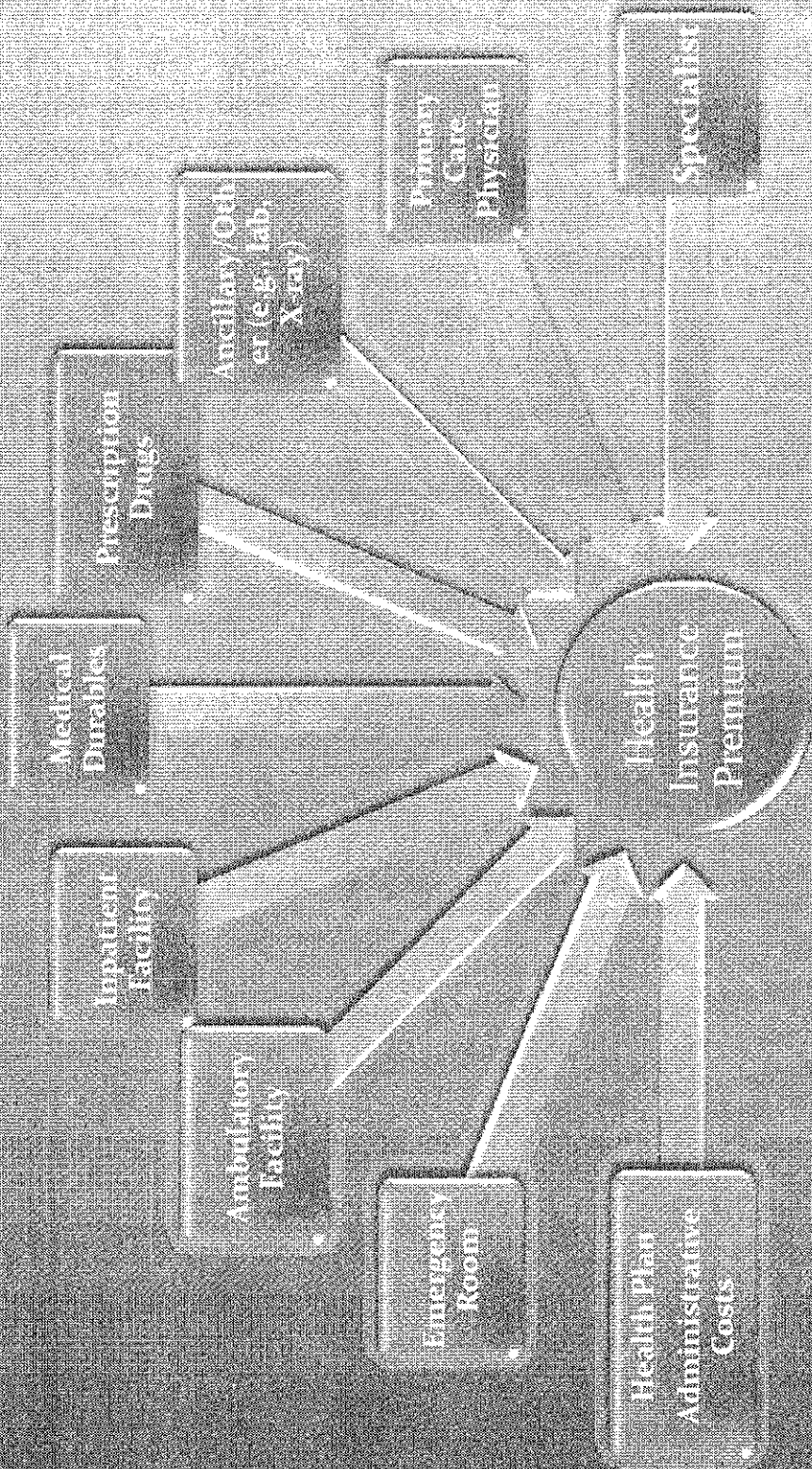
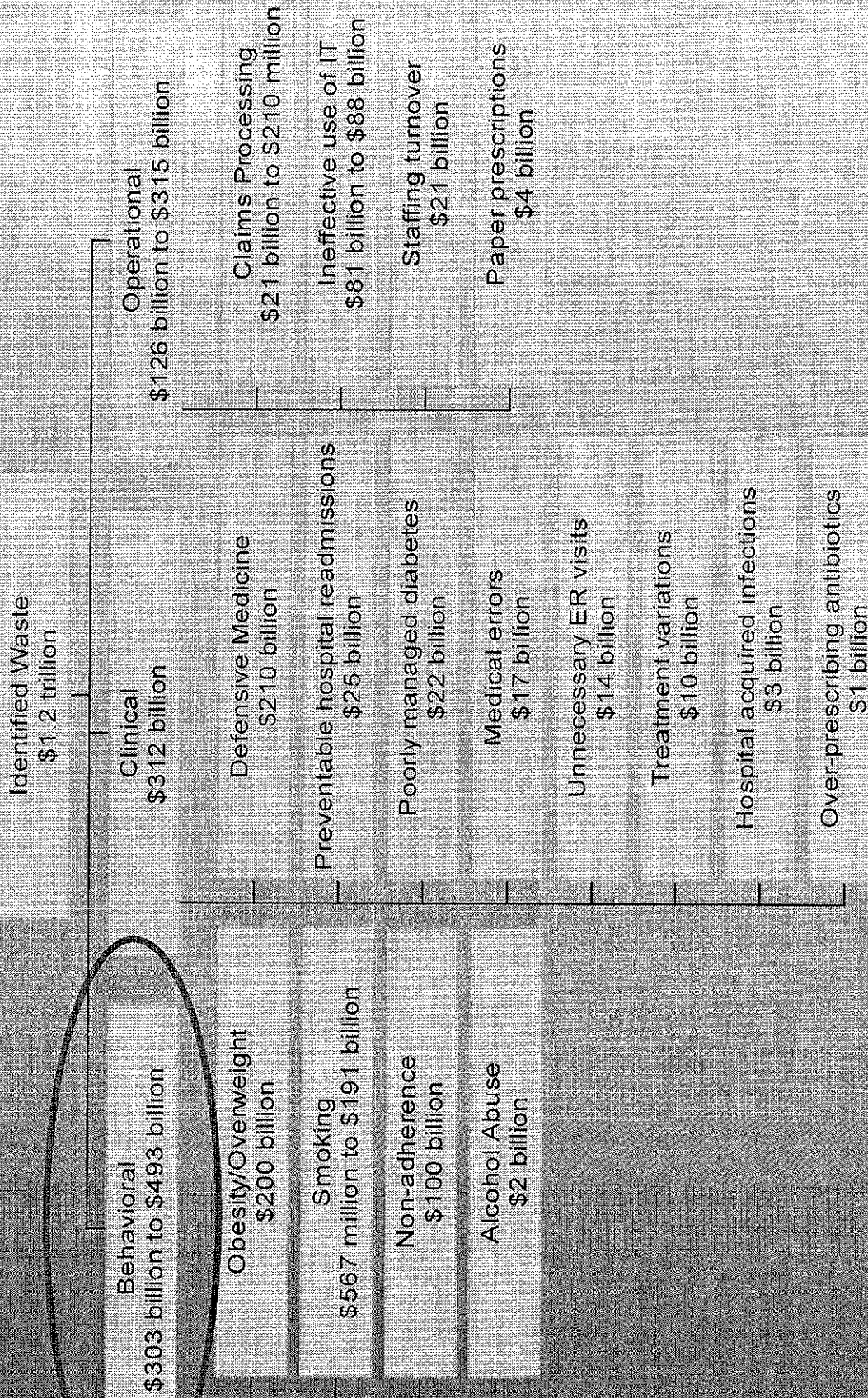


# Health Insurance Premiums - A Reflection of Costs



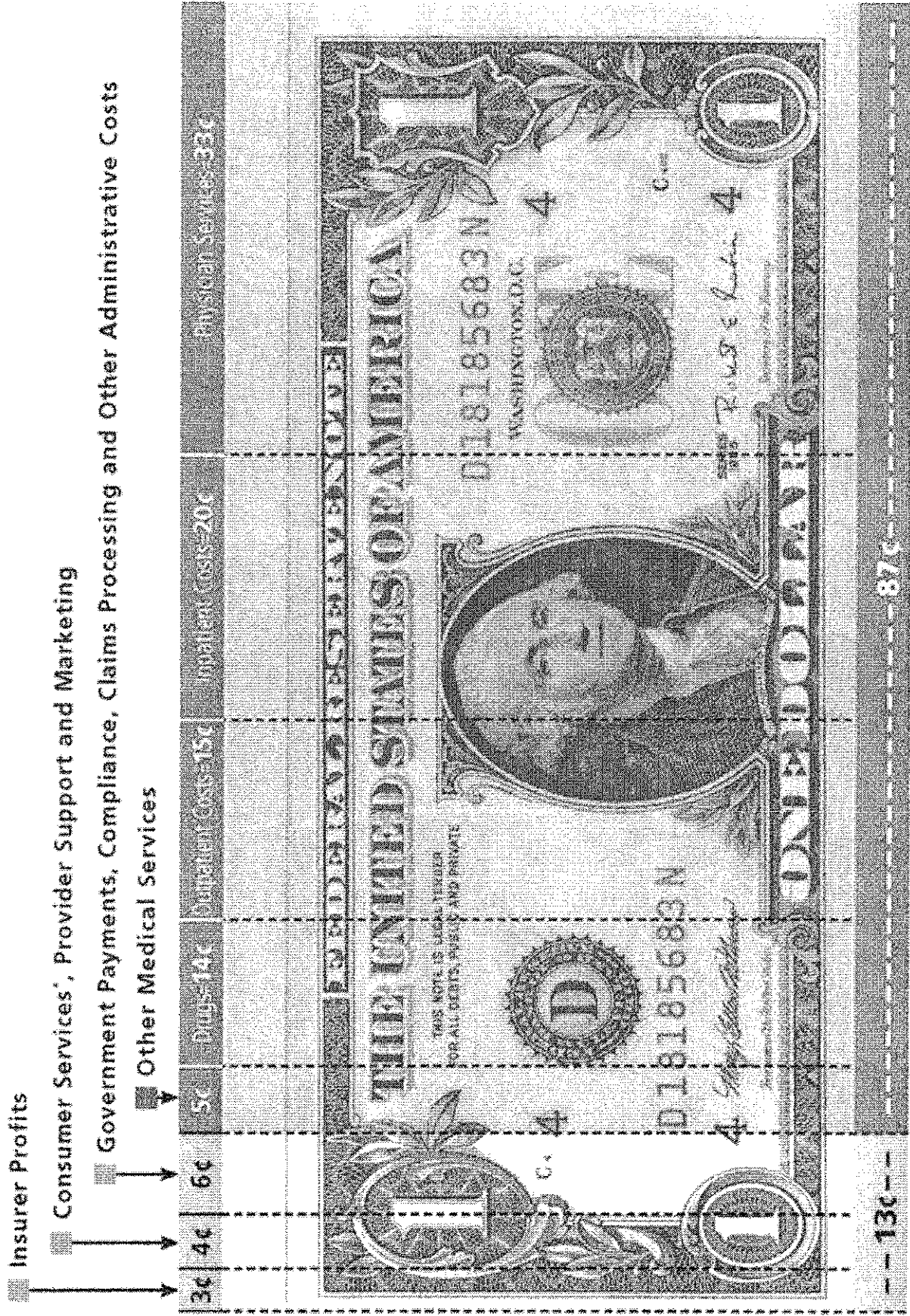


# Excess Waste in Health Care



PriceWaterhouseCoopers Health Research Institute: The price of excess  
*Identifying waste in healthcare spending.*

# Where Does Your Health Insurance Dollar Go?

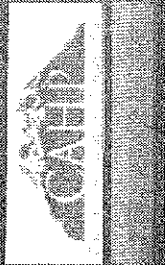
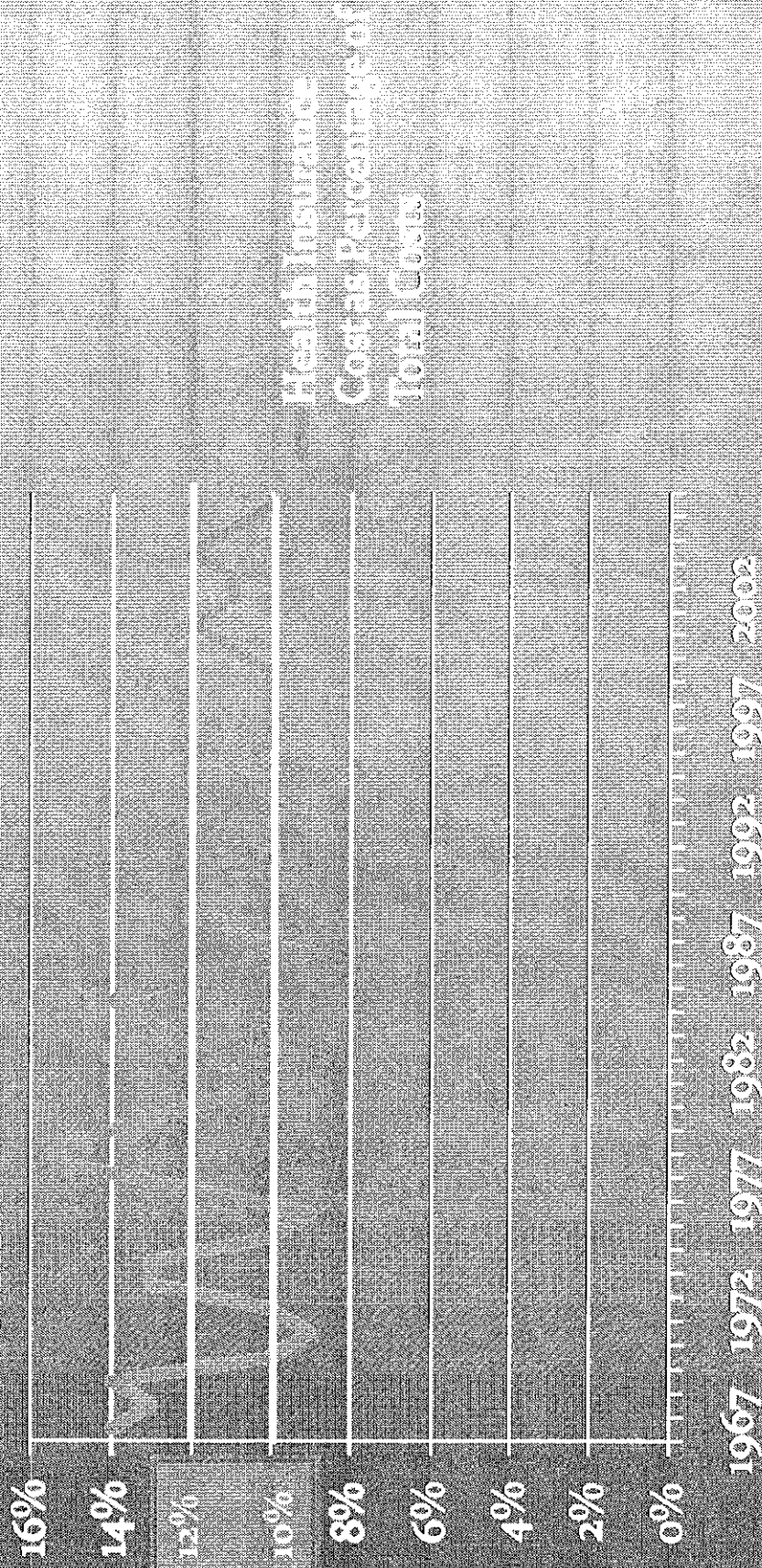


\*Includes prevention, disease management, care coordination, investments in health information technology and health support. Based on a PricewaterhouseCoopers' analysis, Factors Fueling Rising Healthcare Costs 2008. © 2008 America's Health Insurance Plans





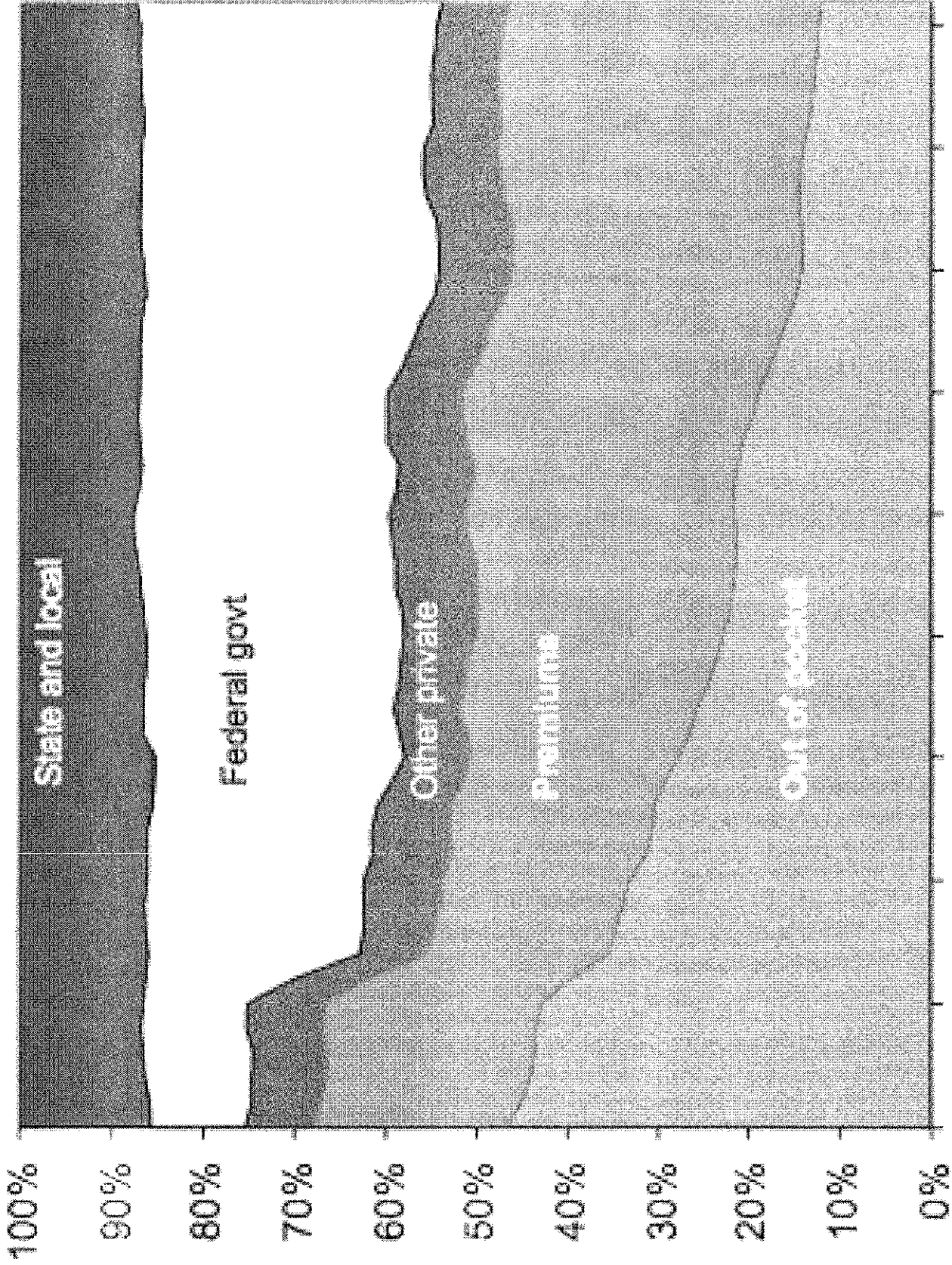
# Health Insurance Administrative Costs As a Percentage of Premiums (1966-2006)



Pricewaterhouse Coopers calculations based on CMS National Health Expenditure Data, 1960-2006

# National Health Expenditures

Percent of National Health Spending :



1960 1965 1970 1975 1980 1985 1990 1995 2000 2005

Centers for Medicaid and Medicare (2006)






Slide 3

Drug Pricing Information

### Kaiser Permanente Background

- Facts and Figures (continued)
  - 86% generic drug utilization rate – 14% brand
  - Community is closer to 70% generic utilization rate
  - Brand name drugs have a price 15 times higher than generic drugs on average
- Membership
  - We provide services for close to 500,000 members
- Employees
  - Pharmacy services employs ~650 staff in Colorado
  - We are the "employer of choice" for pharmacists



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Slide 4

Drug Pricing Information

### Pharmaceuticals

- Prescription Drugs are a Vital Component of Health Care
- Drugs are crucial to maintaining, improving and saving lives
- Drugs are one of the key drivers of overall health care costs
- Drugs costs for Kaiser Permanente in Colorado account for 60% of the entire pharmacy department budget. The other 40% is staff, supplies and general overhead
- Brand Name Drugs
  - Protected by patent for 17 years
- Generic Drugs
  - Enter the market after patent expiration and provide significant cost savings



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Slide 5

**Competition**

- When competition exists, drugs prices and the impact on overall health care costs are better controlled
- Competition such as having numerous drugs (the same drug entity or within a therapeutic class) allows for contract negotiations
- Market share is a significant incentive for pharmaceutical companies to negotiate contracts – thus resulting in savings
- “First to File” generic companies have a 180-day exclusivity for the generic drug. Sometimes a brand manufacturer will release and authorized generic at the same time to retain some market share and revenue

**Result**

- Entry of Authorized Generic during 180-day exclusivity results in deeper discounts than just having one generic entity in the market
- Discounts increase dramatically after the 180-day exclusivity


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Slide 6

**Safety vs. Savings**

- Kaiser Permanente has stringent standards and performs internal testing of generic drugs to assure they meet our criteria and will be safe for our members. This criteria is more stringent than FDA guidelines
- Example
  - There is a generic version of a transplant medication that has been on the market for 6 months. Kaiser Permanente can save \$20-\$30 Million annually by converting
  - Rather than convert, we are conducting a study with 25 patients to assure safety. This is done in conjunction with our transplant physician specialists
  - Preliminary information indicates we will be able to convert to a generic product without encountering any issues
  - Evidence based use of generics is already in place


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