

**Talking Points**  
**1999 Outlook for BCBSF**  
**December 16, 1998**

**Highlights of 1998**

**Corporate Development**

Blue Cross and Blue Shield of Florida is committed to providing affordable, quality health care to Floridians. The company is always examining and looking at ways we can grow our business and expand our customer base so we can continue to deliver on that commitment. We have been looking at different ways to grow our business through acquisitions, diversification and new business opportunities.

We were excited to expand our base of customers in 1998 with the agreement we signed to acquire Principal Health Care of Florida. The acquisition is a good strategic fit with our goals, and was one of the best opportunities we explored in 1998.

**State Group Account**

Although we won back the state group account in 1997, the challenge came in 1998 when we actually began administering the account again. The success of our administration illustrates the confidence that the state and its employees have in our abilities, and is a testament to the dedication of our company and employees to accept a challenge and exceed a customer's expectations.

State employees have expressed high levels of customer satisfaction (85%-87%) with our service. Through our networks and administration, we have saved the state of Florida millions of dollars in medical costs. As a result, the state will not have to increase premiums for employees next year.

**Leadership Transition**

Bill Flaherty's retirement represented the ongoing evolution of a strong and growing business. Our current senior management team has significant experience and tenure with our company, and they have been instrumental in developing and implementing our corporate direction and strategies to become a leading managed care company. This past year we made significant progress along this course.

Our transition in 1998 did not signal a change in direction for our company; in fact, it reinforced that we are continuing along our path to remain and grow as the state's leading health care organization.

## **Opportunities for 1999**

We will continue to strengthen our focus on the customer, the quality of health care and the affordability of our products in 1999. BCBSF's corporate purpose is to provide customers with affordable solutions to their health care needs. We want to be the health care company that provides uniquely valuable products and produces them at lower cost.

### **Principal Health Care of Florida Acquisition**

We are expecting to close on the Principal Health Care of Florida acquisition on December 31, and take over management January 1. We are making an investment in Principal Health Care of Florida's customers and believe this transaction is in their best interests as well as ours. These customers will have an expanded portfolio of health care benefit plans — from HMO to PPO to traditional indemnity — and access to our broad network of physicians, hospitals and other health care providers.

This acquisition expands BCBSF's customer base statewide by approximately 150,000 new HMO members. Our primary goal with this acquisition is to ensure Principal's customers experience a smooth transition to BCBSF with no disruption in care or coverage.

### **Continued Growth of Deerwood Campus Complex**

In 1998 we broke ground on two more buildings at our Deerwood Campus Complex. It's exciting to actually be here, watching the buildings go up. That work will continue through 1999 and be completed sometime in the Spring of 2000.

By bringing departments and employees who work together into a consolidated campus, we have been able to improve our efficiency and enhance the service and products we provide our customers. Our facilities strategy allows us to be flexible with our office space needs depending on our customer growth.

### **Virtual Office Progress**

We continue to make progress in implementing Virtual Office with providers throughout the state, and we will accelerate implementation in 1999. Virtual Office makes it easier for providers to give our customers quality service and care. Virtual Office connects us to our providers and gives them the capability to access as much information as they need to provide our customers with excellent service on the spot.

Health care is becoming an industry that is driven by information. We need to have a focus on information management and partner with our providers to continually improve the delivery of health care. We're delivering on this challenge through Virtual Office.

### **Fighting Fraud**

As one of the largest Medicare administrators in the country and the largest health insurer in the state, we have an obligation to beneficiaries and customers to identify fraud, waste and abuse and take steps to fight it. Our Medicare program safeguards area recovered more than \$25 for every \$1 spent last year, and we are expecting even bigger results in the future. We are proud of our stewardship role in maintaining the integrity of the Medicare program.

### **Stronger Focus on Community**

One of the goals in our organization redesign a few years ago was to strengthen our focus on local presence across the state. As a result of the redesign, we have increased our commitment to give back to the community. Our employees are becoming more involved in their communities by participating in programs such as the United Way, Habitat for Humanity, the American Heart Association, the March of Dimes and food drives.

## **Challenges for 1999**

Our industry is becoming increasingly dynamic, competitive and marked by continuing increases in medical costs, an accelerating level of mergers and acquisitions, and an abundance of new government regulations. This environment raises significant challenges for managing the growth and expansion we have planned while maintaining a high level of customer service. We have a strong commitment to provide exceptional value and high quality services to our customers.

### **Rising Medical Costs**

Medical and claims expenses continue to rise in the health care marketplace. It has always been Blue Cross and Blue Shield of Florida's objective to provide its more than 2 million customers with quality health benefits at the most affordable cost possible. We will continue our work to hold down escalating medical costs while still providing access to quality, affordable health care.

In keeping with our managed care strategy and commitment, BCBSF has been successful in slowing the rate of premium increases in many of our products. But as health care services become more expensive, and as people use their health benefits more often, rates must reflect the increase in claims payouts. This is how BCBSF assures that all of our customers will have the coverage they need now and in the future.

Rate increases for 1999 will be commensurate with medical cost increases, as well as other factors such as actual experience, group size, demographic changes and benefit level adjustments. Generally, we are anticipating rate increases averaging 5% to 15% in our HMO and PPO products. However, groups could experience rate increases above or below the anticipated averages outlined above.

### **Medicare Plus Choice**

While some of our competitors in Florida have left the Medicare Risk program, Blue Cross and Blue Shield of Florida remains committed to serving our senior customers in this important market. We will continue to proactively work with the Health Care Financing Administration (HCFA) and Congress to bring about changes to the Medicare Plus Choice program that will positively impact and strengthen the services and coverage areas of our Medicare HMO.

The more than 900 pages of additional regulations and restrictions brought about by the Balanced Budget Act (BBA) made us re-examine our Medicare Risk business development and expansion plans. While well intended, the regulations have real, negative, unintended consequences on the quality and access of health care for seniors.

We are concerned that in the future, seniors in Medicare Risk plans will no longer be able to enjoy the same benefits they're currently accustomed to. This reduced value could be illustrated by reductions in benefits and increased costs either through new co-pays or new premiums. Particularly threatened are prescription drug benefits many beneficiaries find crucial to their physical and financial well being.

### **State and Federal Legislation**

With few exceptions, customers fared well in the 1998 legislative sessions — bills were not passed that would decrease the quality and increase costs for customers. However, several of those proposals will be introduced again in 1999, and we always have to keep a close watch on state and federal proposals that do harm to the health care system without improving quality or costs.

### **Year 2000**

Every company is faced with similar challenges for the Year 2000, and BCBSF is no exception. Successfully preparing for the Year 2000 is a top priority at BCBSF. Our project teams are working with our vendors, customers and others toward similar goals, and to learn more about their Year 2000 plans.