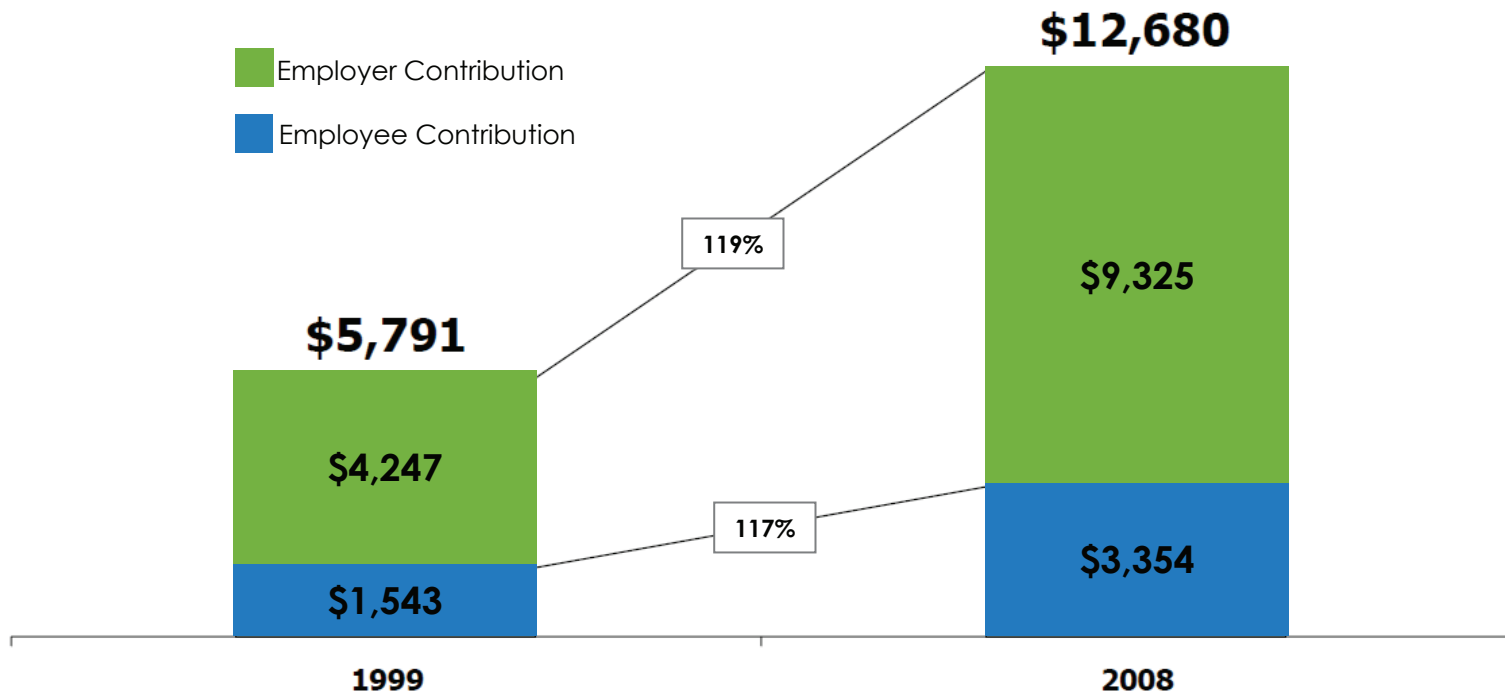


Healthcare costs have more than doubled in last ten years . . . far outpacing inflation & wages

Average Health Insurance Premiums and Worker Contributions for Family Coverage, 1999-2008



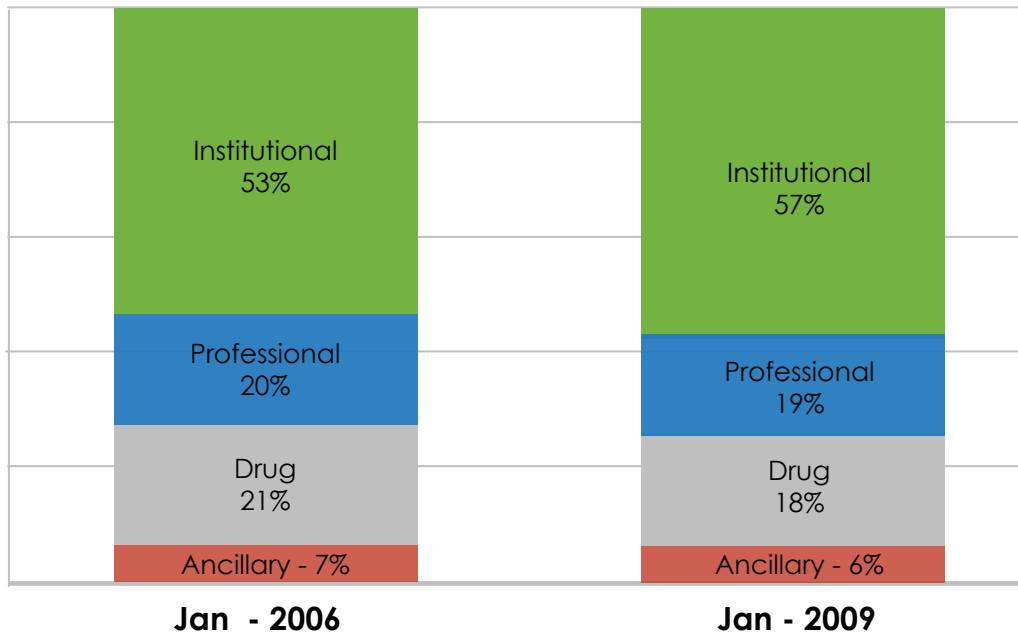
...During this same time period (1999 – 2008) inflation grew by 29% and employee wages grew by 34% on average

Hospital costs are rising faster than all other aspects of care

Hospital costs are rising much faster than any other healthcare setting

- The increased rate of cost inflation has resulted in an additional \$132 PMPY relative to the other factors of healthcare costs
- Trending shows costs are likely to continue to rise at hospitals relative to other areas in 2009

BSC Cost of Healthcare Allowable Spend Distribution
(Commercial Products Only)



Underpayment from Medicare and Medi-Cal is resulting in large cost shifts to commercial payers

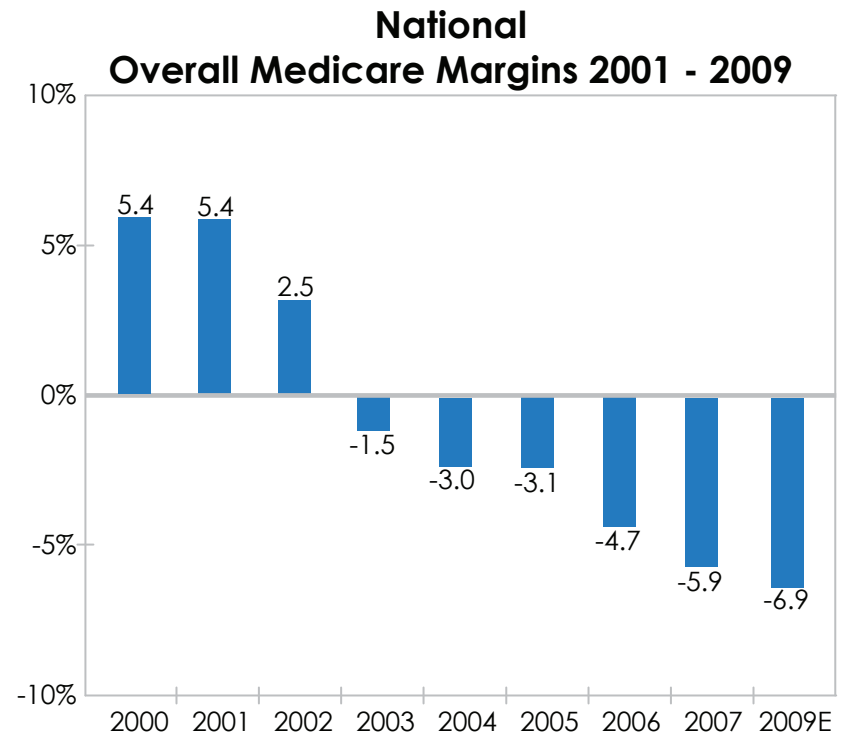
- Nearly 27% of commercial payors' total hospital cost are due to cost shifting from Medicare and Medi-Cal – 14% of physician cost. The cost of the impact on employers and employees is nearly \$2000 per employee per year.

Estimated California Cost Shift (millions)

	Medicare	Medi-Cal	Commercial
Hospital	(\$2,707)	(\$2,423)	\$5,130
Physician	(\$534)	(\$3,508)	\$4,042
Total	(\$3,240)	(\$5,931)	\$9,171

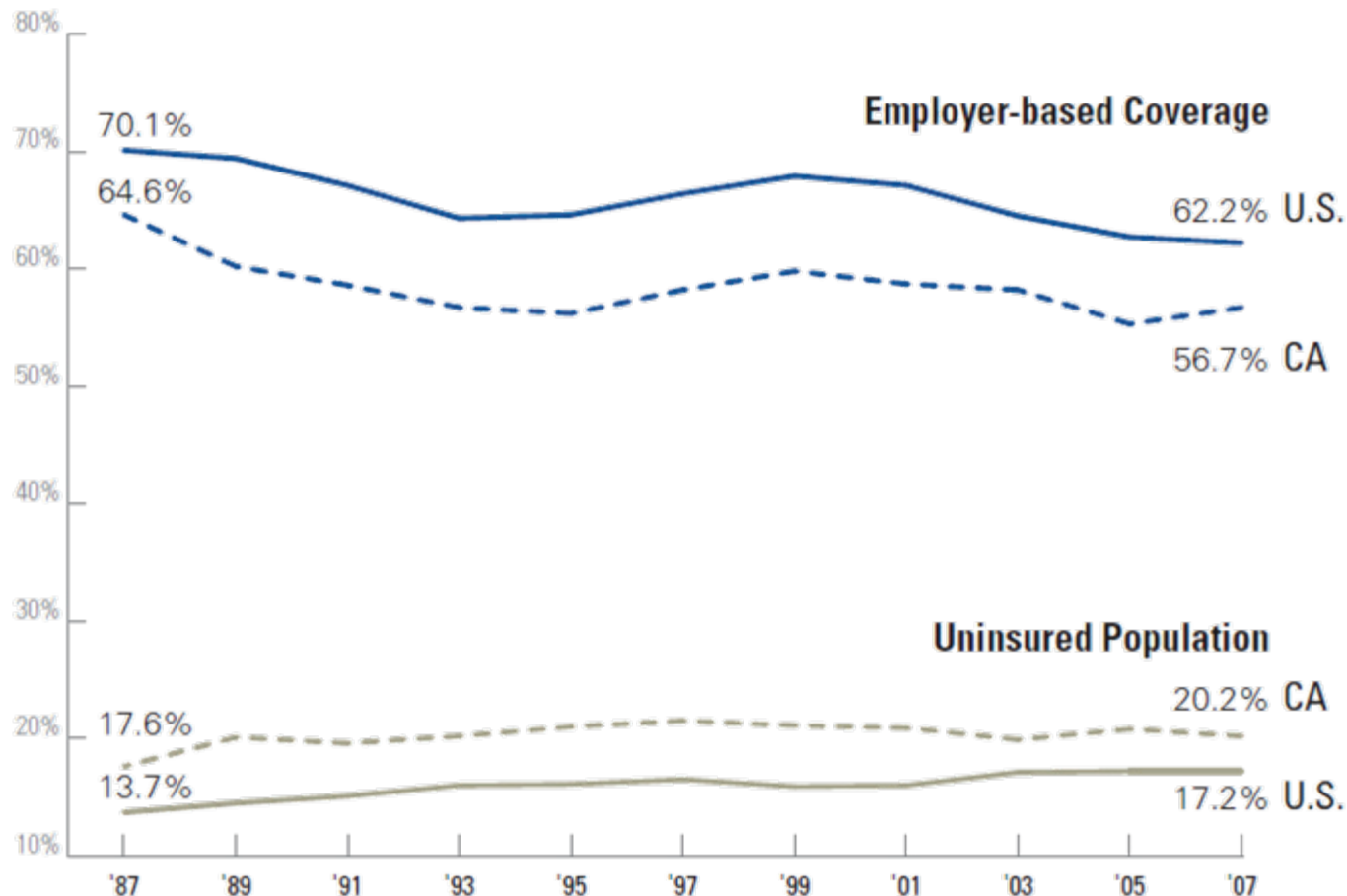
Annual Cost Shift in California Family Tier Contract

	Premium	Cost Sharing	Total
Employer	\$1,234		\$1,234
Employee	\$436	\$298	\$754
Total	\$1,690	\$298	\$1,988

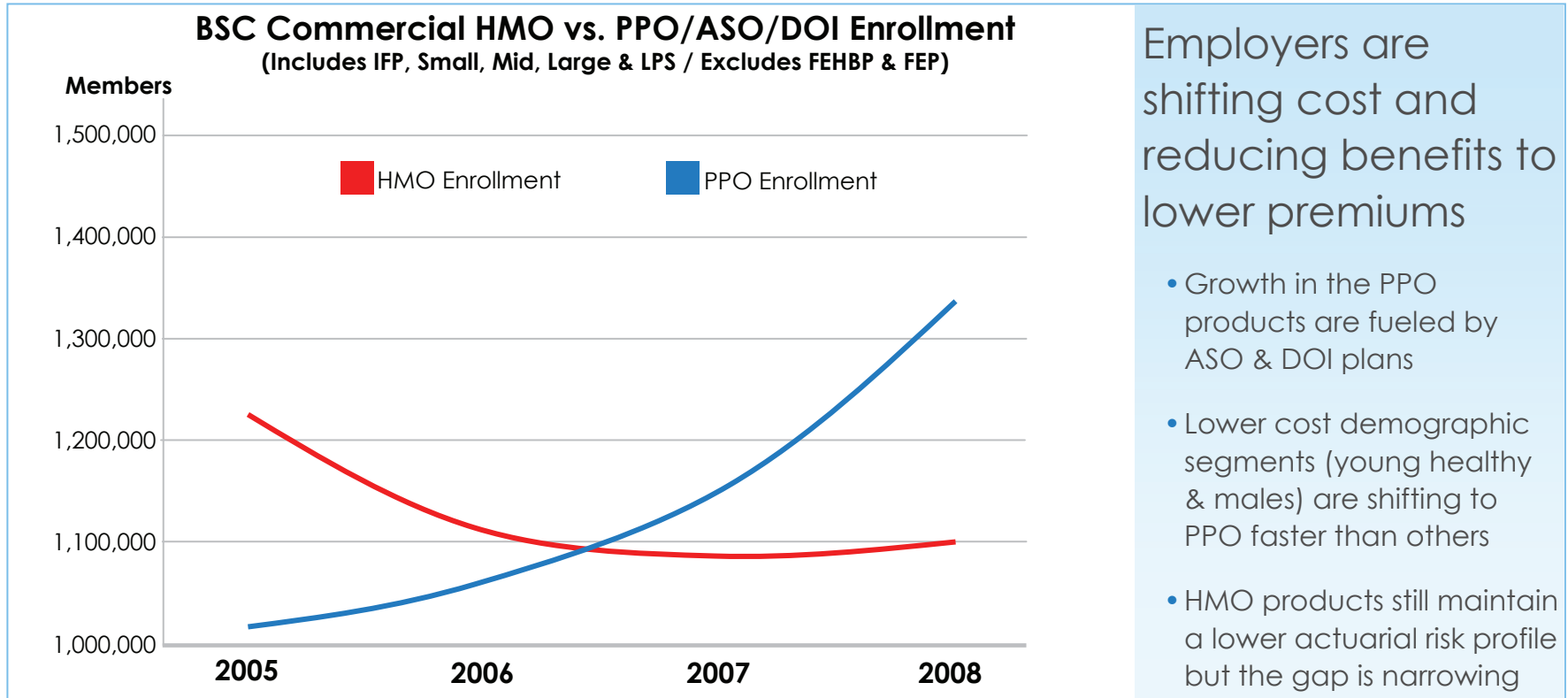


Employers are unable to absorb resulting premium increases given the deteriorating economic environment

The marketplace is demanding new product options with lower cost alternatives, with increased cost, quality and efficiency transparency to inform member choice



We are seeing a large shift from HMOs to PPOs



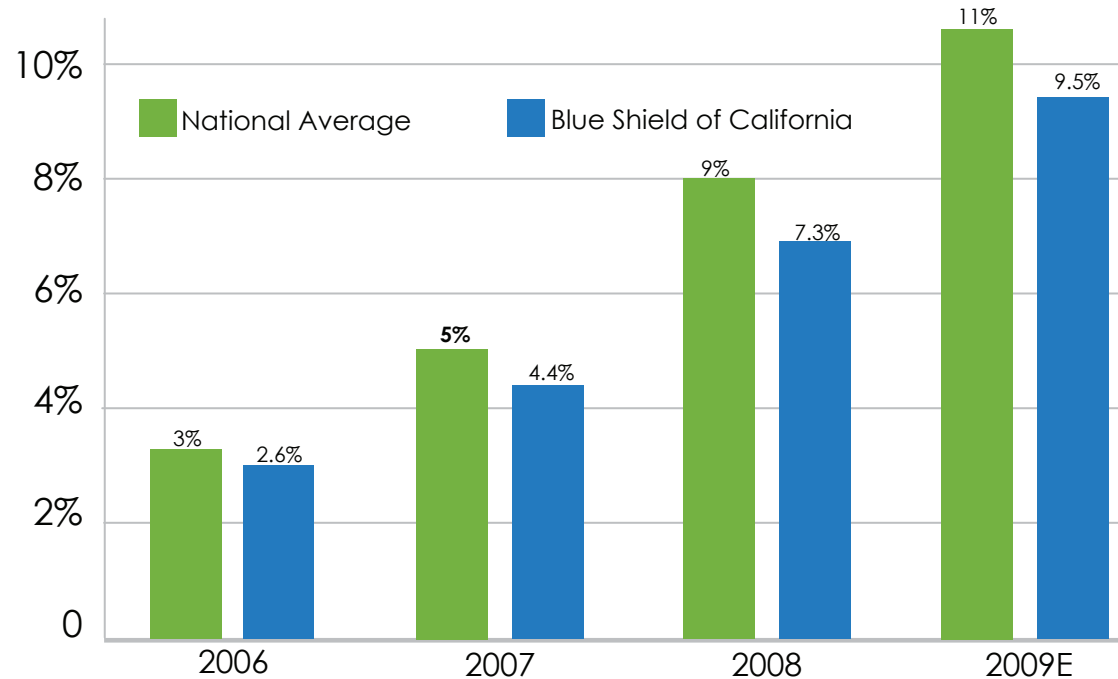
...HMO enrollment would likely be lower if it were not for the leverage of union and bargaining groups in California which represent 55% of our HMO enrollment

Growth of high deductible products...

HDHPs are a small but growing part of the business

- Most of the growth in this segment is coming from individuals and small businesses who might otherwise go without insurance
- 25% of employers surveyed indicated they were likely to offer one of these plans in 2009 for the first time

Percentage of Commercial Members on a High Deductible Plan



...Evidence suggests that high deductible plan participants are no more likely to walk away from hospital bills than are traditional PPO members