



Horizon Blue Cross Blue Shield of New Jersey: An Overview of Their Role in the State

MAY 2007

Introduction

Access to affordable and quality health care has long been one of New Jersey's greatest public policy challenges, and is one of the highest priorities for Governor Jon Corzine's administration. In 2005, there were over 1.3 million residents in New Jersey who lacked health care insurance coverage, and family premiums in this state were 11% higher than the national average. However, in spite of these challenges, New Jersey continues to be on the forefront of policy initiatives to identify opportunities to expand health care coverage, particularly for children. With over 3 million members in 2006, Horizon Blue Cross Blue Shield of New Jersey (hereafter referred to as "Horizon BCBSNJ") is the largest health insurance carrier in the state and a very important participant in New Jersey's health care system.

Blue Cross and Blue Shield plans were first established around the nation at a time when medical advances offered new possibilities for the treatment of illness, but reliable sources of financing for hospitals and physician care were not available. Horizon BCBSNJ, as it is known today, was established in 1932 as a not-for-profit organization headquartered in Newark, New Jersey. This *Issue Brief* provides a snapshot of Horizon BCBSNJ, the state's largest health insurer, describing its role in providing coverage and financing care in New Jersey through public programs and private insurance markets. In addition, the *Issue Brief* provides an analysis of Horizon BCBSNJ's economic contributions to New Jersey, as well as describes the organization's community involvement and role as a major employer in New Jersey. This *Issue Brief* does not offer a formal evaluation

of Horizon BCBSNJ's activities in New Jersey. Rather, it summarizes, and where possible provides context about, data that can be used to inform a larger discussion about the role of this important New Jersey institution.¹

Today, the company offers dental insurance and a variety of health care coverage options including a health maintenance organization (HMO), a point of service (POS) plan, a preferred provider organization (PPO), an exclusive provider organization (EPO - offered to Administrative Services Only customers using a PPO platform), direct access benefits, medical savings accounts, health savings accounts (HSA), health reimbursement arrangements (HRA) and indemnity plans (commonly used health coverage terms are defined in this *Brief on Page 2*). Horizon BCBSNJ is also a general life insurance agent (i.e., they have no underwriting or claims payment responsibilities) and provides administrative services for workers' compensation claims through Horizon Casualty Services (HCS).

In addition to playing a major role in New Jersey's private health insurance markets, Horizon BCBSNJ has also been active in Medicare supplement and managed care programs for Medicare-eligible seniors, including most recently offering prescription coverage through Medicare Part D. Horizon BCBSNJ continues its participation in public coverage programs for low-income populations including Medicaid and NJ FamilyCare, New Jersey's State Children's Health Insurance Program (SCHIP). Dating back to 1961 when the company was the

hospital administrator for the traditional plan, Horizon BCBSNJ has had some role in providing benefits under the State Health Benefits Program (SHBP). Since 1996, Horizon BCBSNJ has administered both indemnity coverage and point-of-service benefits, through NJ PLUS, for the SHBP. That contract was successfully renewed in January 2002.

Horizon BCBSNJ has played an active role in providing insurance products to New Jersey's public coverage programs and in markets that, at times, have not been well served by commercial carriers. For example, in 2005 Horizon BCBSNJ covered nearly half (42%) of all Medicaid and NJ FamilyCare managed care enrollees, 57% of Medicare HMO members, and 64% of the HMO membership in New Jersey's non-group health insurance market.² In 2005, nearly one-in-four people enrolled in an HMO plan in New Jersey received their benefits through Horizon BCBSNJ. By December 2006, Horizon BCBSNJ's total membership in all health insurance products was nearly 3.3 million. Since 1999, this is an overall membership increase of 54%.

Horizon BCBSNJ'S Historical Role in New Jersey

Horizon Blue Cross Blue Shield of New Jersey and its predecessor organizations have been on the forefront of providing health insurance coverage to New Jersey residents since the early 1930s when Blue Cross was born out of the Association of Hospitals of Essex County. With its creation, Blue Cross became the first pre-payment hospital system in the country. Exactly a decade later in 1942, the Medical Surgical Plan of New Jersey (Blue Shield) was formed to provide coverage for non-hospital costs. Blue Cross and Blue Shield worked in concert, but operated as separate entities until they formally merged in 1986.

In the 1970s prior to the merger, there was considerable activity in New Jersey's health care market that would later influence the way in which health care organizations

Health Insurance Terms

- **HMO (Health Maintenance Organization)** - An organization that provides comprehensive health care to voluntarily enrolled individuals and families in a particular geographic area by member physicians with limited referral to outside specialists, and is financed by fixed periodic payments determined in advance.*
- **PPO (Preferred Provider Organization)** - An organization providing health care that gives economic incentives to the individual purchaser of a health care contract to patronize certain physicians, laboratories, and hospitals that agree to supervision and reduced fees.*
- **POS (Point of Service)** - A health insurance plan that allows enrollees to seek care from a physician affiliated with the service provider at a fixed co-payment or to choose a nonaffiliated physician and pay more.*
- **EPO (Exclusive Provider Organization)** - A plan that limits coverage of non-emergency care to contracted health care providers.†
- **Indemnity Plan** - A plan that reimburses physicians for services performed, or beneficiaries for medical expenses incurred.
- **Self-Insured** - An individual or organization that assumes the financial risk of paying for health care.† Many self-insured contracts are administrative services contracts (ASC) where the carrier pays provider claims and then bills the employer for reimbursement later. Other contracts are administrative services only (ASO) where the employer pays provider claims directly.
- **Fully-Insured** - A plan where the employer contracts with another organization to assume financial responsibility for the enrollees' medical claims and for all incurred administrative costs.‡

* Adapted from Merriam Webster Online: <http://www.m-w.com/>
† Pam Pohly's Net Guide - Glossary of Terms in Managed Health Care: <http://www.pohly.com/terms.html>
‡ U.S. Department of Labor, Bureau of Labor Statistics: <http://stats.bls.gov/ncs/ebs/sp/healthterms.pdf>

Data Used in This Brief

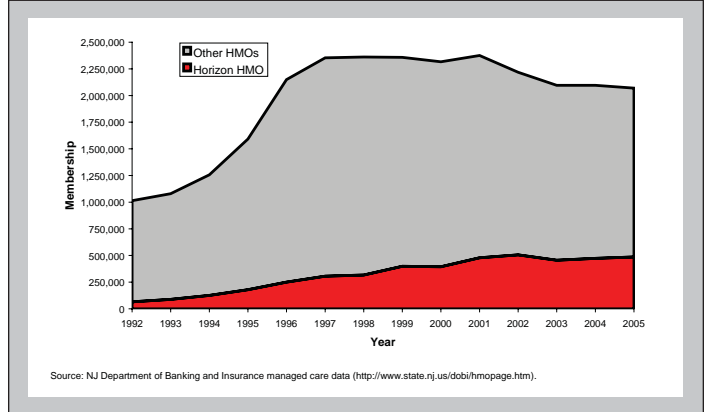
Data used for the charts, graphs, and maps in this *Brief* were obtained primarily from the New Jersey Department of Banking and Insurance (NJDOBI), and from Horizon Blue Cross Blue Shield of New Jersey directly and through materials available on their website (www.horizon-bcbsnj.com). Specifically, Rutgers Center for State Health Policy researchers drew from NJDOBI Individual Health Coverage Program (IHCP) and Small Employer Health Benefits Program (SEHBP) administrative data from 1997-2005. Other data were taken from 1992-2005 managed care membership information from the NJDOBI website that can be found at <http://www.state.nj.us/dobi/hmopage.htm>. In selected instances, 2006 data are included in this *Brief*. However, at the time this *Brief* was prepared, most 2006 data were not yet complete and available in a way that permitted comparable analysis to prior years.

With the exception of the IHCP and SEHBP for which complete enrollment data are available, NJDOBI only provides comprehensive data for HMO managed care products; therefore, in order to provide consistent comparisons, most market share and trend analyses in this *Brief* are presented using HMO membership only. In addition, limited access to other insurer's non-HMO (e.g., Indemnity, Preferred Provider Organization [PPO], Point of Service [POS], and Direct Access) membership data made it difficult to generate membership comparisons across all product lines. However, when such non-HMO data were available, expanded analyses are provided.

New Jersey hospital encounter data from the New Jersey Department of Health and Senior Services, in addition to utilization data provided by Horizon BCBSNJ, were also analyzed by Rutgers Center for State Health Policy. Additional details about the origin of the data can be found in corresponding footnotes throughout this *Brief*.

Data used to estimate Horizon BCBSNJ's economic contributions were provided by Horizon BCBSNJ and analyzed by the Center for Urban Policy Research at the Edward J. Bloustein School of Planning and Public Policy, Rutgers University using the R/ECON Input-Output ModelTM. The model consists of over 500 sectors and traces the linkages of the economic activity from any one sector to all other sectors of the economy. For more details, see <http://www.policy.rutgers.edu/cupr/recon/about.php?pg=3>

Figure 1: New Jersey HMO Membership, 1992 - 2005

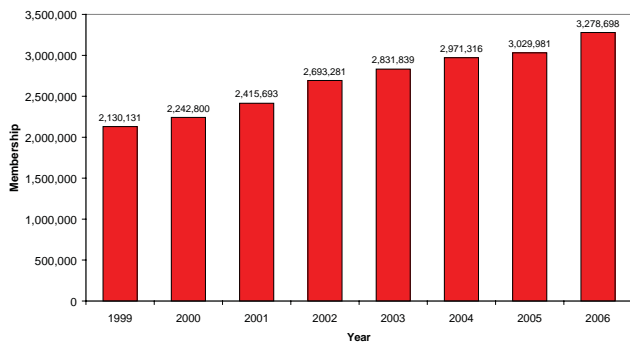


delivered and paid for care. For example, hospital rate controls were put in place for Medicaid and Blue Cross in 1971 when the legislature passed the New Jersey Health Care Facilities Planning Act. Just two years later in 1973, Blue Cross introduced the first health maintenance organization (HMO) in New Jersey that signaled the beginning of the managed care evolution and the shift away from traditional indemnity health insurance coverage.

It was not until 1986 with its merger that the company became a health service corporation under the name Blue Cross Blue Shield of New Jersey (BCBSNJ). According to New Jersey statute, a health service corporation is organized, "without capital stock and not for profit, for the purpose of (1) establishing, maintaining and operating a nonprofit health service plan and (2) supplying services in connection with (a) the providing of health care or (b) conducting the business of insurance as provided for in this act."³ The fact that BCBSNJ was previously New Jersey's "insurer of last resort", the carrier that would provide coverage to otherwise "uninsurable" high-risk individuals, was further testimony to its formerly unique responsibility in the state's health insurance system.

The 1992 passage of New Jersey's Health Care Reform Act (HCRA) and related legislation was a significant health policy milestone that continues to influence the dynamics in the state's health coverage market. In part, this comprehensive legislation sought to address the frailties of the individual and small employer group insurance markets by, among other provisions, mandating

Figure 2: Horizon BCBSNJ Total Membership, 1999-2006



Note: Data as of December 31st 1999 through 2006.
Source: Data provided by Horizon Blue Cross Blue Shield of New Jersey.

Horizon Blue Cross Blue Shield of New Jersey's Milestones Through the Years

1932: Becomes the first multi-hospital, pre-payment system in the country as Associated Hospitals of Essex County (Blue Cross).

1942: Blue Shield was established as the Medical Surgical Plan of New Jersey to cover medical and surgical services.

1973: Introduces the first Health Maintenance Organization (HMO) in New Jersey.

1986: Blue Cross and Blue Shield of New Jersey merge.

1992: New Jersey enacts legislation to reform the individual health coverage market, requiring all health coverage carriers in the state to share in the individual market. No longer considered the "insurer of last resort."

1993: Horizon implements a Medicaid managed care strategy.

1996: Horizon enters the Medicare managed care market.

1998: Adopts a new name and logo – Horizon Blue Cross Blue Shield of New Jersey (BCBSNJ).

2003: Horizon BCBSNJ acquires Mercy Health Plan's interest in Horizon Mercy, resulting in Horizon's full ownership (through its subsidiaries) of the Medicaid plan.

2006: Horizon BCBSNJ offers Medicare Part D benefits.

2006: Provides coverage to nearly 3.3 million members—largest private health insurer in New Jersey.

guaranteed coverage and renewal and community rating. Perhaps the most significant consequence of this legislation is that it effectively put an end to BCBSNJ's role as "insurer of last resort", replacing it with restructured individual and small employer group markets to maximize private coverage options in the state, a commitment among political leadership that remains strong today.

By 1993 BCBSNJ, like its competitors, was exploring managed care market opportunities, and was simultaneously dealing with the impact of the previous year's regulatory changes. During that year, the company launched HMO Blue, its premiere managed care product that by the end of the fourth quarter in 1993 saw its enrollment climb to 88,000 lives, an increasing trend in HMO membership that continues today for Horizon BCBSNJ (Figure 1). Also in 1993, Medigroup Services, Inc., which was indirectly owned by Blue Cross Blue Shield of New Jersey, partnered with Mercy Health Plan of Pennsylvania in a joint venture to administer coverage, under the entity Mercy Health Plan, to Blue Cross Blue Shield's HMO Medicaid membership. This move proved strategically significant given New Jersey's expansion of public health coverage programs in the late 1990s.⁴ In January 2003, Horizon BCBSNJ announced it had acquired Mercy Health Plan of Pennsylvania's interest in Horizon Mercy (as it became known in 1998), resulting in Horizon BCBSNJ's full ownership (through its subsidiaries) of this Medicaid plan (now named Horizon NJ Health).⁵

In late 1998, Blue Cross Blue Shield of New Jersey changed its name to Horizon Blue Cross Blue Shield of New Jersey, and HMO Blue, its flagship managed care product, would subsequently be known as Horizon Healthcare of New Jersey, doing business as Horizon HMO. By the end of 1998, Horizon BCBSNJ's managed care membership rose to nearly 320,000 lives in New Jersey (Figure 1).

By the end of 2006, Horizon BCBSNJ reached a significant milestone when their total health insurance membership reached nearly 3.3 million covered lives (Figure 2). Horizon BCBSNJ's coverage includes acute and chronic care services, as well as mental health

services and prescription drugs, though benefit designs vary across plans. In addition, Horizon BCBSNJ covers more than one million members in its dental health plans.⁶

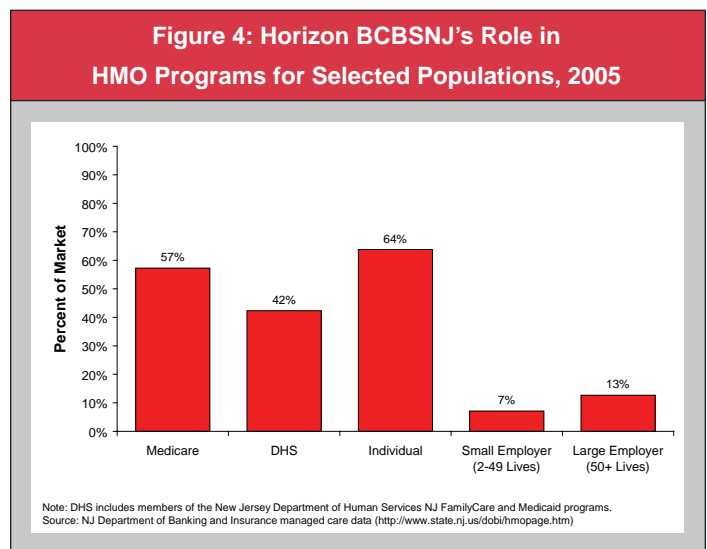
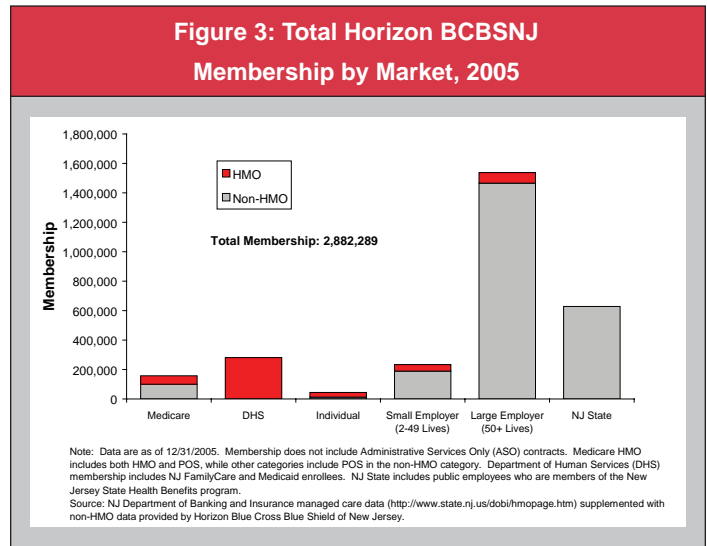
Horizon BCBSNJ's Current Participation in New Jersey's Health Care System

Horizon BCBSNJ has voluntarily participated in both public (Medicare and Medicaid) and private (individual, small, and large groups) markets. Figure 3 shows enrollment and Figure 4 shows HMO market share in each of these programs. In addition, in 1996 Horizon BCBSNJ was awarded a contract (renewed in 2002) to administer New Jersey's State Health Benefits Program (SHBP), which covers both active and retired local (municipal and education), state and public university employees, as well as their dependents. In 2006, Horizon BCBSNJ provided benefits to over 610,000 people in the SHBP.⁸

Since its inception, Horizon BCBSNJ has sustained a tradition of participating in programs, even during periods when other carriers chose to leave the markets. For example, Horizon BCBSNJ provides a large majority of HMO coverage (64%) in New Jersey's Individual Health Coverage Program and the Medicare market (57%). Horizon BCBSNJ also provides HMO coverage for almost half of enrollees in the New Jersey Department of Human Services' (DHS) programs including Medicaid and NJ FamilyCare (42%). Horizon BCBSNJ assumes full financial risk for the claims of virtually all enrollees of these programs.

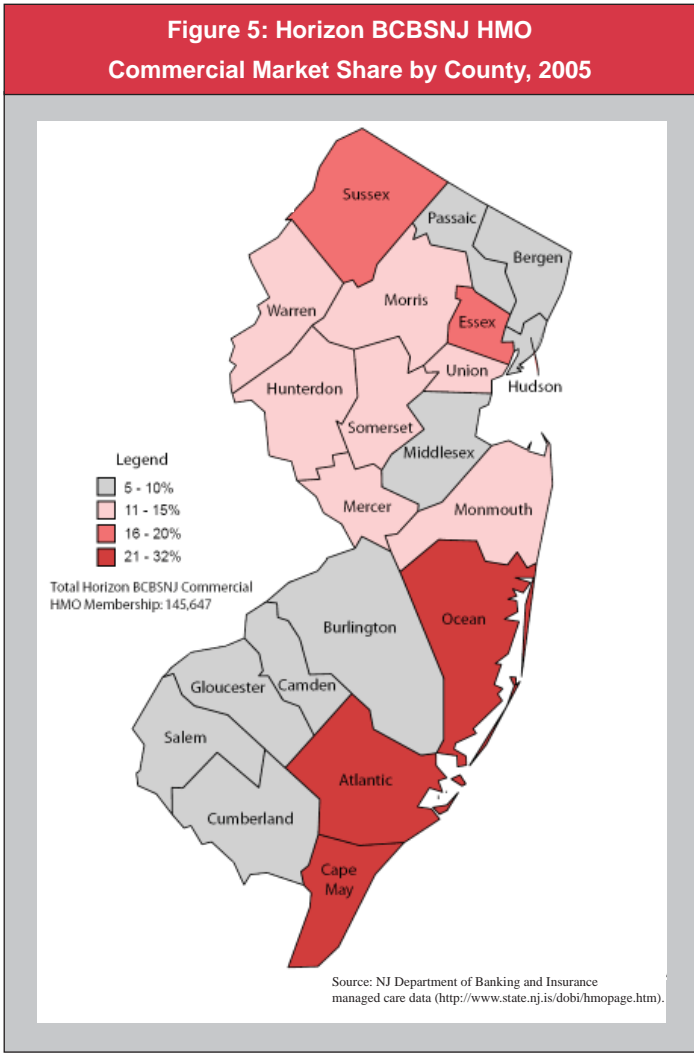
In addition, Horizon BCBSNJ's share of HMO membership has been increasing over the same time period. In 2005, Horizon BCBSNJ provided nearly one-fourth of all HMO commercial coverage in New Jersey which could indicate that there are features of their managed care product still attractive to employers and their employees, despite the network restrictions.

While Horizon BCBSNJ had a total commercial HMO membership of 145,647 in 2005 (according to NJ Department of Banking and Insurance data), their



role in this market segment varied widely across New Jersey counties (Figure 5). In fact, Horizon BCBSNJ's HMO membership accounted for less than 15% of total commercial HMO membership in sixteen of New Jersey's twenty-one counties, while nearly one-third of commercial HMO membership in Cape May County and 26% in Atlantic County belonged to Horizon BCBSNJ. While Horizon BCBSNJ does sustain a statewide presence, they have a larger market role in some regions, specifically in the shore counties that are typically more rural and home to large populations age 65 and older. To provide context, 13.5% of the population in Atlantic County is 65 years and over, while 20.5% of the residents of Cape May County are over 65. Overall in New Jersey, seniors represent 13% of the total population.

Figure 5: Horizon BCBSNJ HMO Commercial Market Share by County, 2005

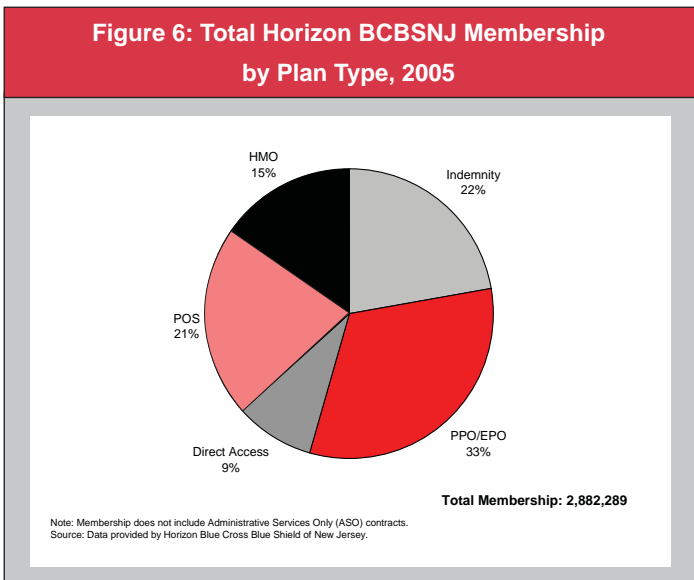


Product Offerings

Horizon BCBSNJ offers a broad array of plans including a health maintenance organization (HMO), point of service (POS), direct access, preferred and exclusive provider organization (PPO and EPO), and traditional indemnity options (see Health Insurance Terms on page 2 and Figure 6).⁶ Horizon BCBSNJ also offers consumer directed health plans such as health savings accounts or health reimbursement arrangements in conjunction with high deductible health plans. PPO/EPO products cover nearly one-third of all members. The PPO allows enrollees to choose their own physicians without approval of a primary care physician (PCP), and members can access any provider without a referral. However, using in-network providers significantly reduces out-of-pocket costs for the enrollee, and in 2005, Horizon BCBSNJ's PPO network included 18,149 providers.⁸ EPO plans are similar to PPO plans; however the plan does not reimburse out-of-network providers.

The traditional indemnity and POS plans each represent a little over one-fifth of Horizon BCBSNJ's membership. Traditional indemnity plans are based on a fee-for-service insurance model and do not impose network restrictions. As a result of the open access component, indemnity plans are the most costly. POS plans offer both an in- and out-of-network benefit, and require enrollees to choose a PCP and obtain referrals to see specialists. In 2002, 84% of active patient care physicians in New Jersey participated in a Horizon BCBSNJ network, followed by 81% for Aetna and 75% for Cigna.⁹

Figure 6: Total Horizon BCBSNJ Membership by Plan Type, 2005



Participation in Private Coverage Markets

Individual Health Coverage Program

The Individual Health Coverage Program (IHCP), New Jersey's non-group health insurance market, was born out of the 1992 insurance reform legislation. Analyses of the first few years of the IHCP showed that these reforms were achieving their goals of, among

other things, increasing the number of carriers offering coverage in the market and providing affordable coverage regardless of individuals' age or health status. However, since 1996, the market has experienced rising premiums (compared to employer coverage) and declining enrollment. Evidence indicates that those people who are opting to stay in the program do so to cover very costly medical needs and consequently, premiums have risen faster than other market segments.¹⁰ Some have characterized the woes of the IHCP as an "adverse selection death spiral", though it now appears that the program is in a phase of stability, albeit at levels of enrollment much lower than once covered in this market. The IHCP's Basic & Essential (B&E) plan, implemented through legislation in 2003, is a more affordable "bare bones" plan with a modified community rating of 3.5 to 1. This plan has seen consistent enrollment growth, particularly in the last two years. With over 12,000 members in the B&E at the end of 2006 (according to NJ Department of Banking & Insurance data), Horizon BCBSNJ accounts for two-thirds of the total membership in the plan.

Horizon BCBSNJ has a long-standing history of participation in the IHCP. In 1997, Horizon BCBSNJ covered approximately 56% of the IHCP market, reflecting combined HMO and non-HMO membership. In 2006, Horizon BCBSNJ's HMO and non-HMO IHCP membership was approximately 53,000, which accounted for over 60% of total IHCP enrollment, with the balance of membership diffused among seven other participating carriers (Figure 7). As a number of carriers have exited or reduced their presence in this market, Horizon BCBSNJ's role has become increasingly significant.

Small Employer Health Benefits Program

In addition to trying to address the failing individual market, the 1992 regulatory reforms also sought to remedy problems in the small employer group (2-50 employees) market in New Jersey, and created the Small Employer Health Benefits Program (SEHBP).

Figure 7: Membership in the New Jersey Individual Health Coverage Program (IHCP), 1997-2005

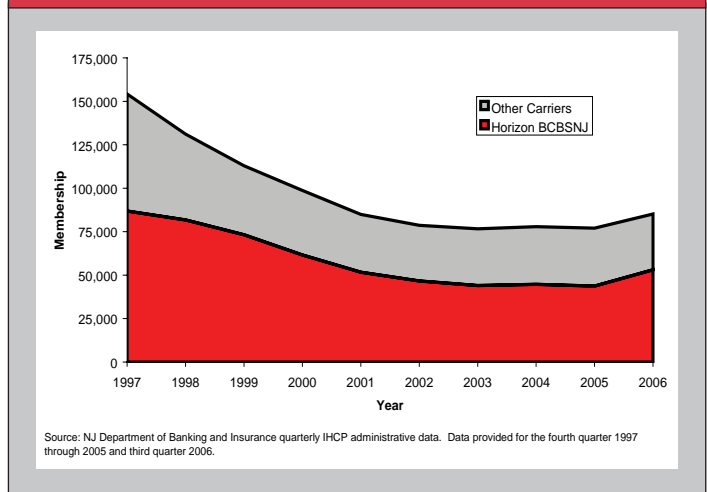
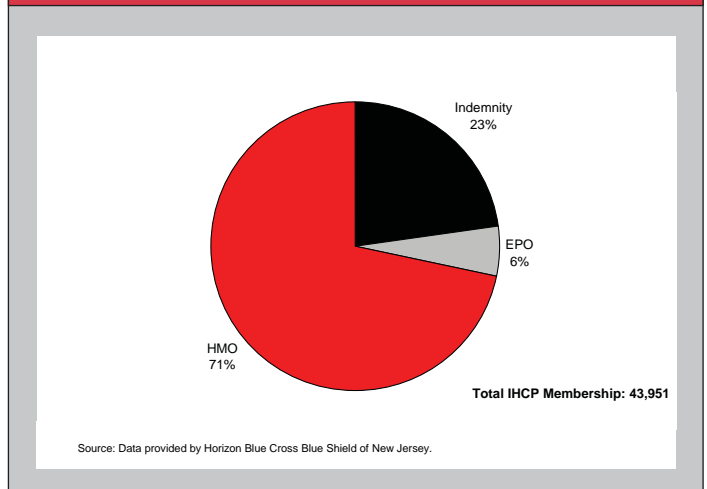
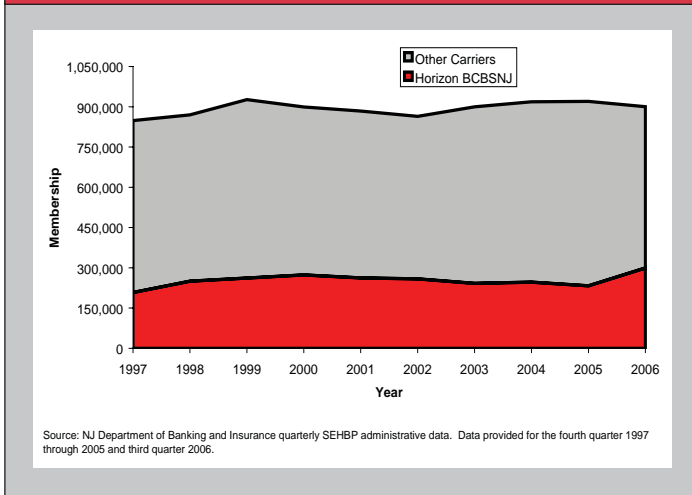


Figure 8: Horizon BCBSNJ IHCP Membership by Plan Type, 2005



While IHCP membership has declined, the SEHBP has remained stable, and has even seen periods of modest membership growth (Figure 9). This stability is notable in the context of the steady decline in recent years in the number of persons covered through employer-sponsored coverage nationally. In 1997, Horizon BCBSNJ had approximately 25% of the SEHBP market share, including both HMO and non-HMO enrollment. Nine years later, in 2006, that percentage grew to more than one-third of the market. During this period, the number of participating carriers in the market decreased from thirty-nine to eleven, with Horizon BCBSNJ a dominant carrier with a stable market presence in the SEHBP.

Figure 9: Membership in the New Jersey Small Employer Health Benefits Program (SEHBP), 1997-2005

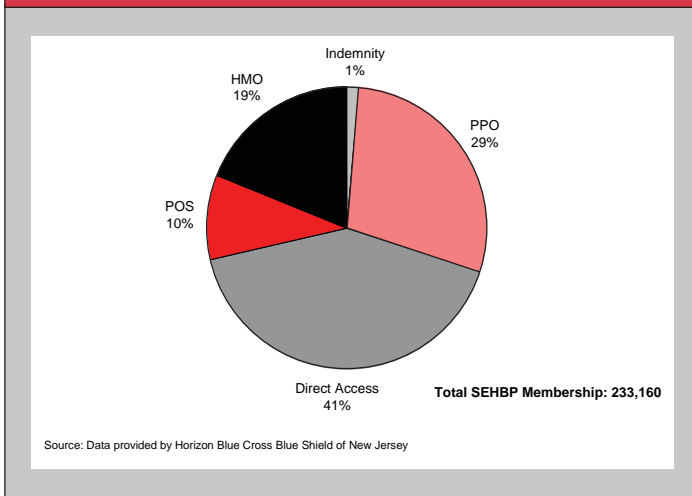


In 2005, most of Horizon BCBSNJ's SEHBP members were enrolled in the Direct Access plan (41%) and the PPO (29%), while other members chose to enroll in the Horizon HMO (19%) or POS plan (10%) (Figure 10).

Large Group Coverage

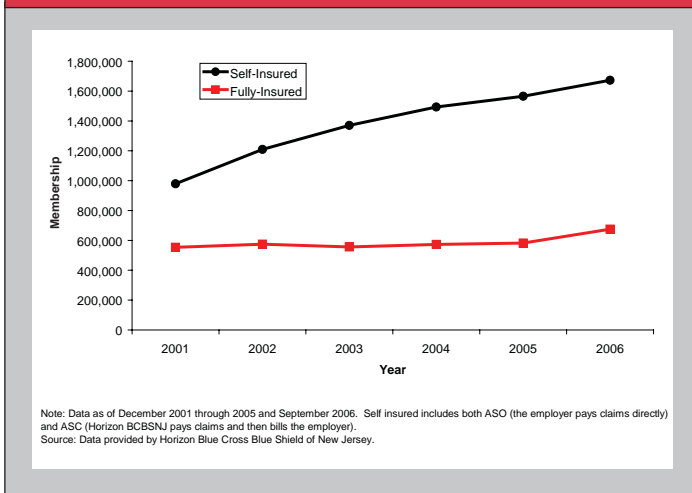
Horizon BCBSNJ also provides large group coverage, offering both fully-insured benefits and self-insured contracts (Figure 11). In 2005, approximately 60% of Horizon BCBSNJ's large group membership was self-insured by their employers. By self-insuring, employers are responsible for all health care costs incurred by their enrollees, even if those costs are unexpectedly high. Because of the assumption of this risk and no requirement for mandated benefits, self-insuring is attractive mainly to large firms. Self-insuring can help large groups avoid certain taxes and state regulations (including specific benefit mandates) of fully-insured policies, and it allows for greater flexibility in managing the investment of funds reserved to cover future claims and in designing plan benefits and coverage.

Figure 10: Horizon BCBSNJ SEHBP Membership by Plan Type, 2005



Most large groups enrolled in Horizon BCBSNJ's health plans chose PPO or EPO plans (52%) as these offer the greatest flexibility in accessing providers locally and nationally through Blue Card, which is attractive to employees (Figure 12). An additional 20% of large employers offering coverage through Horizon BCBSNJ provided their employees with an indemnity option. Indemnity plans are known to be the most generous as they offer unlimited access to providers and care is paid for on a fee-for-service basis. These plans are popular with labor unions and public sector, collective bargaining accounts.

Figure 11: Horizon BCBSNJ Large Group Membership, Fully-Insured versus Self-Insured, 2001-2006



Participation in Public Programs

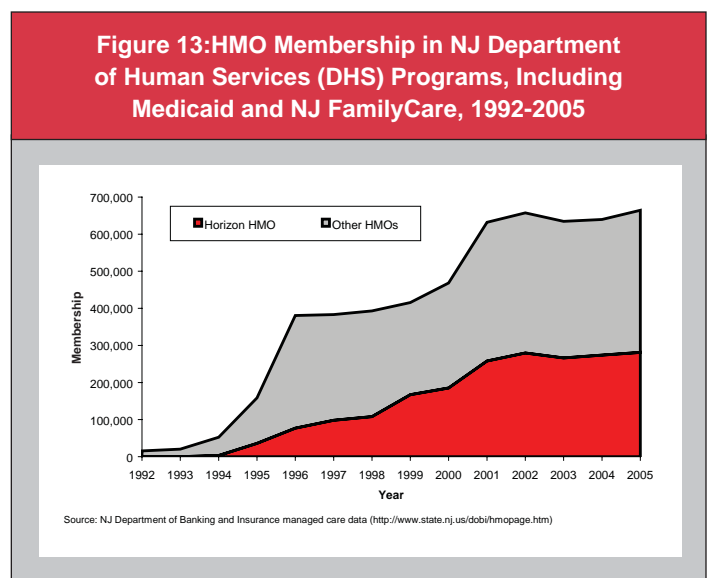
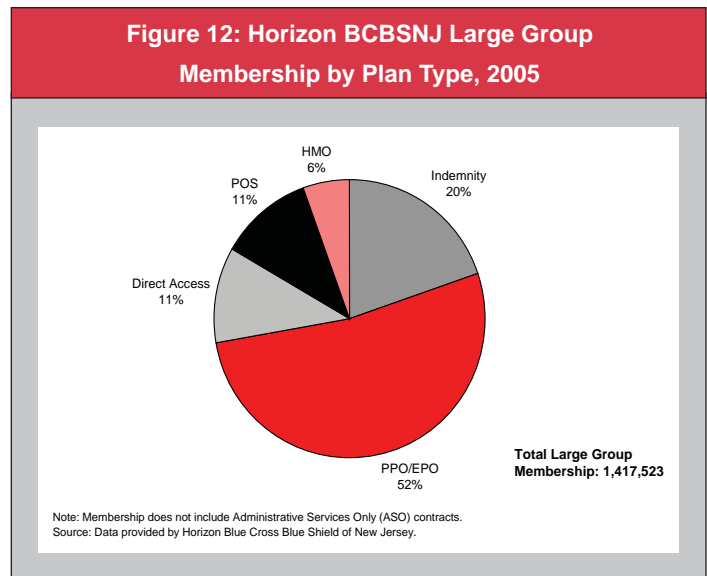
Medicaid and NJ FamilyCare

There has been a significant increase in New Jersey's public managed care membership since 1994 (Figure 13). This upward trend continues, in part due to the

1997 launch of New Jersey's State Children's Health Insurance Program (SCHIP), NJ KidCare. This program, administered within the New Jersey Department of Human Services' (DHS) Division of Medical Assistance and Health Services, was expanded and renamed NJ FamilyCare in 2000. These programs were created to provide free or discounted health benefits to children and adults (through the implementation of NJ FamilyCare) whose family income is modest but too high to qualify them for other public benefits. Since the time these programs were enacted, New Jersey has continued to be in the forefront in SCHIP program expansions designed to increase coverage options, particularly for uninsured children. In 2003 and 2004, NJ FamilyCare reduced program eligibility for new enrollment of adults because of state budgetary constraints. However, in July 2005, the Governor and legislature re-opened NJ FamilyCare to many adults who had previously been ineligible during the enrollment freeze.

Throughout these ebbs and flows within the NJ FamilyCare and Medicaid programs, Horizon BCBSNJ has continued its active participation in these voluntary markets. In 2005, more than half of DHS program enrollees in ten of New Jersey's twenty-one counties enrolled in Horizon BCBSNJ managed care plans (Figure 14). As previously noted, Horizon BCBSNJ is at full risk for virtually all of these members (Horizon BCBSNJ does not bear full risk for approximately 1% of NJ FamilyCare members under a small DHS special program).⁸ Horizon BCBSNJ enrolls a large majority of program beneficiaries in certain counties, including in Hunterdon and Salem Counties where Horizon BCBSNJ's market share is 78% and 68%, respectively. Overall, Horizon BCBSNJ has maintained a strong presence in DHS coverage programs; and in 2005, DHS program beneficiaries accounted for 58% of Horizon BCBSNJ's HMO membership (Figure 3).

In 2005, the New Jersey Legislature passed legislation permitting uninsured children living in families above current NJ FamilyCare income eligibility thresholds to enroll in the program without state subsidy. Other states have experimented with this strategy, dubbed a "full-cost



buy in", with limited success.¹¹ To date, the New Jersey full-cost buy in program has not been implemented, but it remains a possible source of an expanded role for all carriers participating in Medicaid's managed care program to help address the problem of the uninsured in New Jersey.

Medicare Managed Care

Medicare managed care in New Jersey slowly accelerated enrollment in the 1990s, hitting its peak in 1999 with nearly 200,000 members in eight health plans throughout the state. Horizon BCBSNJ began enrolling Medicare members in their HMO product (then known as HMO Blue) in 1996. With the enactment of the federal Balanced

Budget Act (BBA) in 1997, which reduced reimbursements paid to carriers offering Medicare HMO coverage, several managed care companies chose to exit the program, and overall membership declined sharply in the years 2000 to 2003. In fact, in 2002, four health plans chose not to renew their Medicare+Choice (the redesigned Medicare HMO program after the BBA) contracts with the federal Centers for Medicare and Medicaid Services (CMS). The withdrawal of these carriers caused significant coverage disruptions affecting 53,144 Medicare members in seventeen of New Jersey's twenty-one counties. In 2003, Congress enacted the Medicare Prescription Drug, Improvement, and Modernization Act (MMA). This further modified the Medicare managed care policy (renaming it to the Medicare Advantage program), and created the Medicare Part D prescription drug coverage program, which went into effect on January 1, 2006. Following implementation of the MMA, total managed Medicare enrollment ended its decline and has grown slowly.

Horizon BCBSNJ's enrollment of Medicare managed care members has held relatively stable since 1999, even as other carriers withdrew from offering coverage (Figure 15). In fact, in 2005, Horizon BCBSNJ provided HMO coverage to 57% of Medicare managed care enrollees. In six of New Jersey's twenty-one counties, Horizon BCBSNJ provided Medicare managed care to more than 85% of all Medicare HMO enrollees, and nearly 100% in four counties, including Cumberland, Hunterdon, Somerset, and Warren (Figure 16). As of January 1, 2007, Horizon BCBSNJ had over 187,000 members receiving Medicare prescription drug benefits, almost 49,000 of whom were also enrolled in a Medicare Advantage health plan.⁸

Horizon BCBSNJ's Contributions to Health Care Financing in New Jersey

Forty-five cents of every dollar spent on health care in the US is provided by Medicare, Medicaid and other government programs with care of the most expensive patients reimbursed directly by these programs.¹³ Another 36% of all health expenditures are paid by private

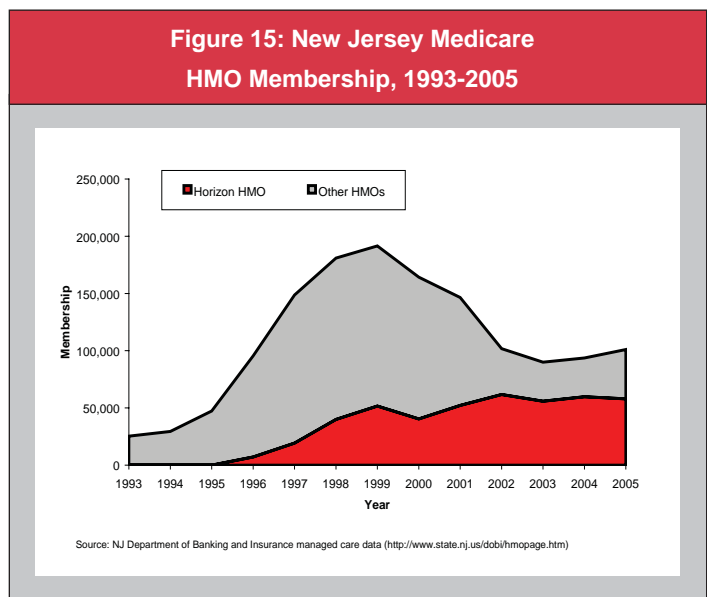
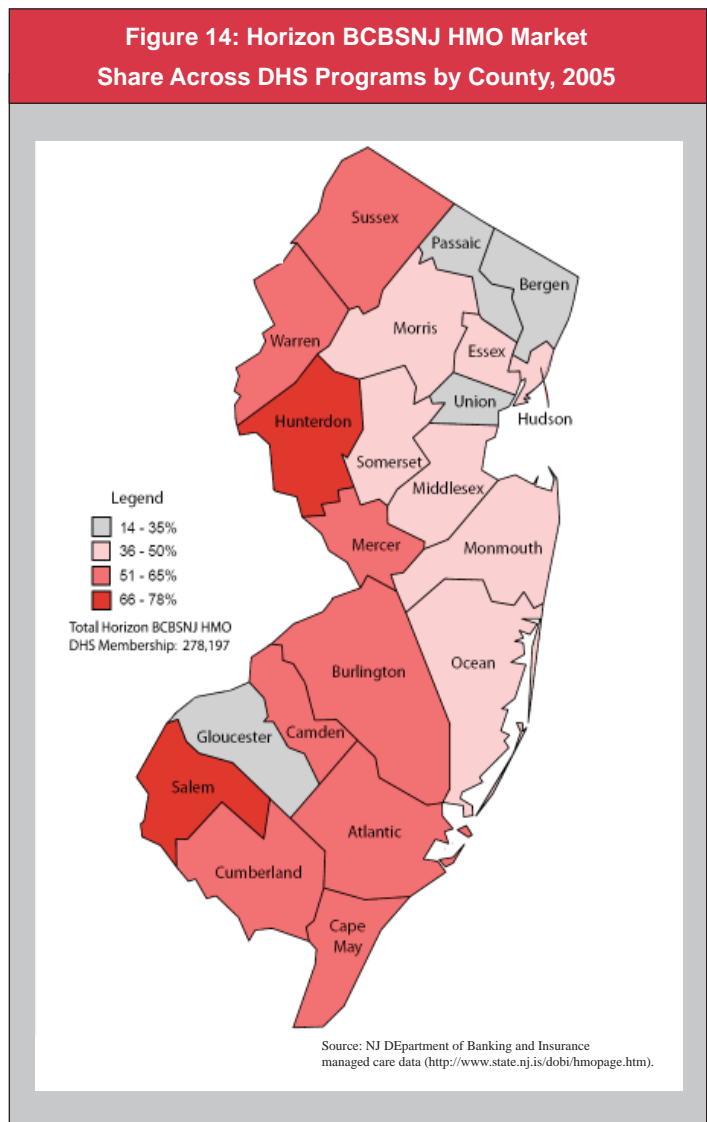


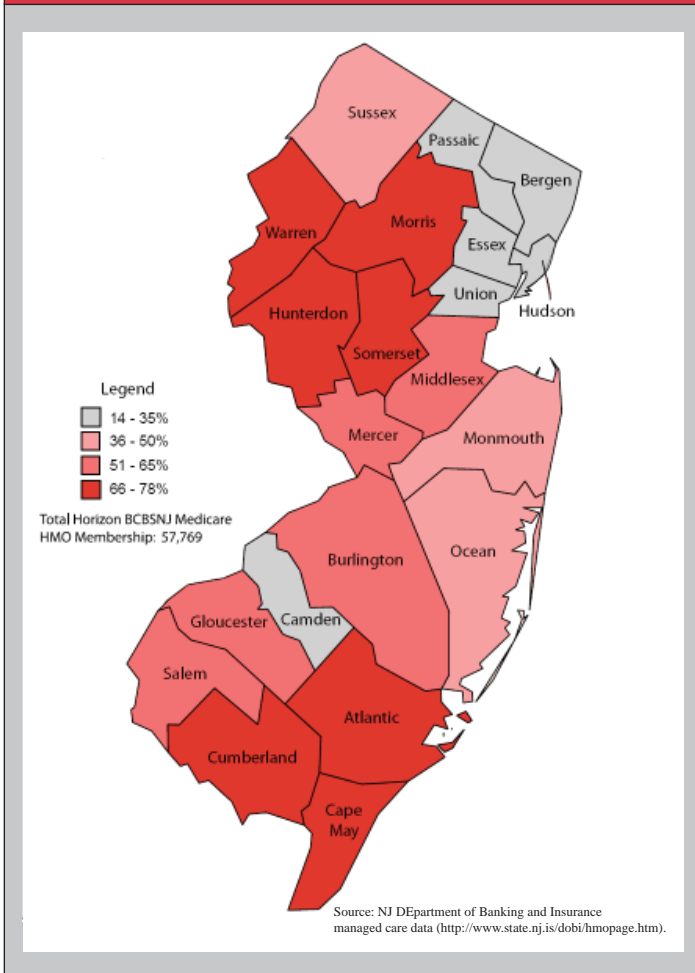
Table 1: Total Payments to Health Care Providers and Percent of Total Personal Health Care Expenditures (PHCE) to Providers in New Jersey, 2002-2005

| | 2002 | 2003 | 2004 | 2005 |
|---|--------------------|--------------------|--------------------|--------------------|
| Horizon BCBSNJ Expenditures (Thousands of Dollars) | \$4,969,963 | \$5,934,686 | \$6,967,706 | \$7,567,287 |
| % of PHCE | 11.6% | 13.0% | 14.2% | N/A |

Note: Horizon BCBSNJ health care expenditure data include all payments to health care providers including health care institutions, professionals, dental, and capitated payments, for fully insured contracts and Administrative Services Contracts (ASC). Data on PHCE in 2005 were not yet available.

Source: Data on Horizon BCBSNJ expenditures on health care provided by Horizon BCBSNJ. PHCE data come from CMS National Health Expenditure Accounts data.¹⁴

Figure 16: Horizon BCBSNJ Medicare HMO Market Share by County, 2005



health insurance. As discussed previously, Horizon BCBSNJ plays large roles in both private health insurance markets and in the managed care programs sponsored by Medicare and Medicaid. These significant roles are evident in the share of New Jersey's health expenditures reimbursed by Horizon BCBSNJ (Table 1). In 2005, Horizon BCBSNJ paid more than \$7.5 billion to health care providers. In 2004, Horizon BCBSNJ reimbursed claims equal to 14.2% of all payments to New Jersey health care providers. The proportion of New Jersey health care provider payments made by Horizon BCBSNJ increased from 2002 to 2004, an indicator of their continued market share growth.

On behalf of their covered population, Horizon BCBSNJ pays for hospital and other institutional health care services, physicians and other health care practitioners on both a fee-for-service basis and through monthly capitation payments. Within its portfolio of expenditures, most of Horizon BCBSNJ's payments are to institutions, including hospitals (\$3.8 billion), followed by health care professionals (\$3.3 billion) and prescription drugs (\$1.6 billion) (Figure 17).

Horizon BCBSNJ's Healthcare Quality and Efficiency Initiatives

- *World Class Clinical Quality Program* to emphasize preventive care and screenings.
- Enhanced interactive voice response system and online services to improve technology and efficiency of health information for members and providers.
- *Health and Wellness Education Program* to provide chronically ill members with up-to-date, evidence-based treatment and preventive care information.
- Discounts on uncovered, health enhancing services.
- Member incentives to promote healthy behavior.
- Initiatives to reduce infectious disease in hospitals.
- E-prescribing for physicians by providing personal digital assistants (PDAs) to reduce medical errors and increase system efficiency.
- Technology to assist physicians in monitoring patient care and overall practice patterns.
- Preventing health care fraud with an award winning Special Investigations Unit.

Horizon BCBSNJ's role in financing hospital payments has been steadily growing from 1998 to 2005 (Table 2). The percentage of inpatient hospital stays paid by Horizon BCBSNJ jumped from 7.3% in 1998 to 11.2% in 2005. The percentage of dollars charged for inpatient care grew at a slower rate than the percent of admissions, increasing from 6.1% in 1998 to 9.3% in 2005. Similar to inpatient hospital admissions, Horizon BCBSNJ paid for 5.7% more hospital outpatient visits in 2005 than in 1998, but outpatient reimbursements increased only 5.3% over that time. In 2005, Horizon BCBSNJ paid for approximately 10% of all inpatient hospital admissions and a little more than 17% of outpatient hospital visits, as well as 10% of emergency department visits in 2004 and 2005.¹⁵

Improving Quality and Efficiency of Health Care

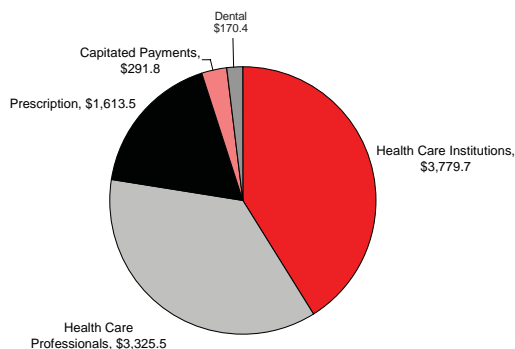
Horizon BCBSNJ Strategies to Address Quality and Efficiency

The scope of Horizon BCBSNJ's payments to health care providers, the volume of their membership and the size of their provider network combine to provide Horizon BCBSNJ the opportunity to pursue initiatives and programs aimed at improving the quality and efficiency of health care in New Jersey. Horizon BCBSNJ has implemented a broad range of initiatives to improve service quality, reduce medical errors and enhance the efficiency of health service delivery.

Horizon BCBSNJ utilizes several new technologies to improve quality and efficiency for members and network providers.⁶ One such program is titled the "*World Class Clinical Quality Initiative*" which emphasizes the need for preventive care and screenings. In addition, a *Health and Wellness Education Program* provides chronically ill members with current evidence-based information on the best treatments and preventive care for their condition.

In the last two years, Horizon BCBSNJ has also been working with MedMined, Inc. to use hospital data to find ways of reducing the rate of infections

Figure 17: Horizon BCBSNJ Health Care Expenditures (in Millions) by Category, 2005



Note: Expenditures do not include Administrative Services Only (ASO) claims.
Source: Data provided by Horizon Blue Cross Blue Shield of New Jersey

Table 2: Horizon BCBSNJ's Role in Paying for Hospital Care in New Jersey, 1998-2005

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| Inpatient | | | | | | | | |
| Admissions | 7.3% | 8.6% | 8.8% | 9.5% | 10.4% | 10.5% | 10.8% | 11.2% |
| Percent of Total Charges | 6.1% | 7.4% | 7.5% | 8.1% | 8.8% | 8.7% | 8.8% | 9.3% |
| Same Day Service | | | | | | | | |
| Admissions | 11.7% | 13.9% | 14.1% | 15.0% | 15.7% | 16.2% | 17.3% | 17.4% |
| Percent of Total Charges | 12.0% | 14.0% | 14.0% | 14.9% | 15.9% | 16.0% | 17.2% | 17.3% |
| <small>Note: Newborns not included. Inpatient includes all overnight patients. Same day services include medical and surgical day admissions, but excludes ambulatory care. Source: New Jersey hospital UB-92 data analyzed by the Rutgers Center for State Health Policy.</small> | | | | | | | | |

acquired by patients during hospital stays.⁸ Horizon BCBSNJ is providing hospitals with software programs to assist in this endeavor. These infectious diseases frequently exacerbate already compromised health conditions, prolong hospitalizations, and require more costly care than needed for the original diagnosis. Utilizing a complete integrated care management model may improve the quality of health care received.

Horizon BCBSNJ has also advanced the automation of physician drug prescribing. Electronic prescribing can reduce medical errors, increase treatment compliance among members, and reduce costs for providers.^{6,8} In 2005, through Horizon Health Connections, Horizon BCBSNJ was the first health insurer in the nation to provide physicians e-prescribing technology, a \$6.8 million investment. As part of the initiative, one-thousand network physicians were given personal digital assistants (PDA), software training, and installation, which allowed them to remotely access the patient's medication history, lists of drugs covered by the patient's insurance company, and benefit information. In 2006, the U.S. Department of Health and Human

Services requested that Horizon BCBSNJ partner with RAND Corporation to test electronic drug prescribing technologies as part of the New Jersey E-Prescribing Action Coalition.

In an effort to offer incentives to providers to utilize this technology, Horizon BCBSNJ established an honoraria program. Qualifying physicians can receive between \$150-\$500 per month if they participate in a bi-annual survey and transmit at least 20% of their prescriptions electronically. To date, Horizon BCBSNJ's program has paid over \$270,000 in honoraria to eligible physicians and invested nearly \$5 million in software, hardware, installation and training to support electronic prescription technology.⁸

As patient safety continues to be the focus of many interventions, this technology is integral in reducing medical errors by allowing the physician to see all medications the patient is currently taking and notifying the physician when combinations of drugs may cause adverse interactions. As well, this e-prescribing initiative is thought to improve efficiency in the physician's office and pharmacy by reducing staff time spent verifying

Table 3: Annual Economic Contributions of Horizon BCBSNJ

| | Direct Impact | Indirect Impact | Total |
|--|----------------------|------------------------|----------------------|
| Contribution to Gross State Product | \$526,566,000 | \$408,546,000 | \$935,113,000 |
| Employment | 4,585 | 4,614 | 9,199 |
| Total Compensation * | \$453,654,000 | \$272,247,000 | \$725,901,000 |

* Total 2006 compensation include salaries, commissions, payroll taxes and employee benefits.

unclear prescriptions. Horizon BCBSNJ attributes a decline in the number of calls made by pharmacies to the physician offices (from 22 a day to two per day) to the use of this technology since it eliminates the need to read physician handwriting and reduces patient misunderstandings about prescription administration.⁸ Calls to verify prescriptions can be burdensome to physician office staff because they must pull patient charts for each inquiry. With the e-prescribing technology, Horizon BCBSNJ believes that administrative resources are being conserved.

In May 2005, Horizon BCBSNJ also began providing physicians with a second technology, Prism MD from WebMD, which allows for better management of patient care and physician practice patterns.⁶ Prism MD is an online application geared toward health care providers, allowing them to review patient care histories for individual patients in order to better manage care and improve practice patterns. This technology also generates patient alerts to notify physicians when the patients are due for specific screening or preventive care services. In addition, the Prism MD technology helps to improve efficiency for physician’s administrative staff by allowing them to verify patient eligibility, as well as submit and review claims and payments online rather than telephonically. Personal health records also allow patients to maintain and update their own records.

Finally, Horizon BCBSNJ is working to reduce health care costs by addressing fraud.⁶ In 2004, Horizon BCBSNJ recovered over \$14.6 million from 724 new investigations, 65 of which were referred to law enforcement agencies. They increased recoveries further in 2005 to a record \$15.5 million from 760 new investigations, with 50 referred to law enforcement agencies. Horizon BCBSNJ’s Special Investigations Unit uses analytics and data mining technology to uncover fraudulent activities. However, in 2005, 65% of new investigations were identified by Horizon BCBSNJ employees or through calls to Horizon BCBSNJ’s anti-fraud hotline. In 2006, the company recovered \$9.2 million from 577 investigations on providers, subscribers or groups. In October of that year, Horizon BCBSNJ’s anti-fraud efforts were recognized by the New Jersey Attorney General’s Office of Insurance Fraud Prosecutor which awarded the “*Excellence in Investigating Fraud Award*” for Horizon BCBSNJ’s ability to identify complex fraud and effectively use new technology and forensic analysis.⁶

One important marker of insurer service is member satisfaction. During the fourth quarter of 2005, Horizon BCBSNJ fielded their first member satisfaction survey across lines of business beyond HMOs. In 2006, Horizon BCBSNJ conducted this survey in both June and November. The overall response rate for the two surveys

fielded thus far was approximately 30%.⁸ However, the rates varied greatly by plan type and market, with Medicare having the highest response rates of over 50% and Direct Access and HMO the lowest response rates.

Horizon BCBSNJ's member ratings (85% satisfied or very satisfied in 2005 Q4, 84% in 2006 Q2) were better than both the national industry average (76%) and the regional industry average (80%) in 2005.^{8,19} Overall satisfaction varied by plan type with indemnity and POS members reporting the greatest satisfaction, and HMO and Blue Card members the lowest. This could possibly be explained by members' frustrations with the "gate keeping" features which are typical in any HMO plan design. Specifically, members were most satisfied with plan benefits, prescription drug coverage, and access to physicians and hospitals which reflects positively on the size and scope of Horizon BCBSNJ's network.

In addition, each year the New Jersey Department of Health and Senior Services issues the HMO Performance Report which analyzes the performance of HMOs across four broad areas; *members' satisfaction with service and access; members' satisfaction with their doctors and medical care; the HMO's efforts to help members stay healthy and; how well the HMO's care for members who are sick.* In 2006, Horizon BCBSNJ ranked number one on more HEDIS measures than any other HMO in New Jersey.¹⁶

Horizon BCBSNJ's Contribution to the New Jersey Economy

In addition to the impact of its core insurance activity, Horizon BCBSNJ's annual business expenditures generate significant benefits for the New Jersey economy through direct and indirect employment and spending. Horizon BCBSNJ's 2006 expenditures were used for this economic contribution analysis. To the extent that Horizon BCBSNJ's spending is similar from year to year, these economic contributions will also continue. In addition to the \$7.6 billion in payments by Horizon

BCBSNJ for medical services, its operating expenditures totaled nearly \$1.2 billion in 2006 (most of it spent in New Jersey), and included such key components as:

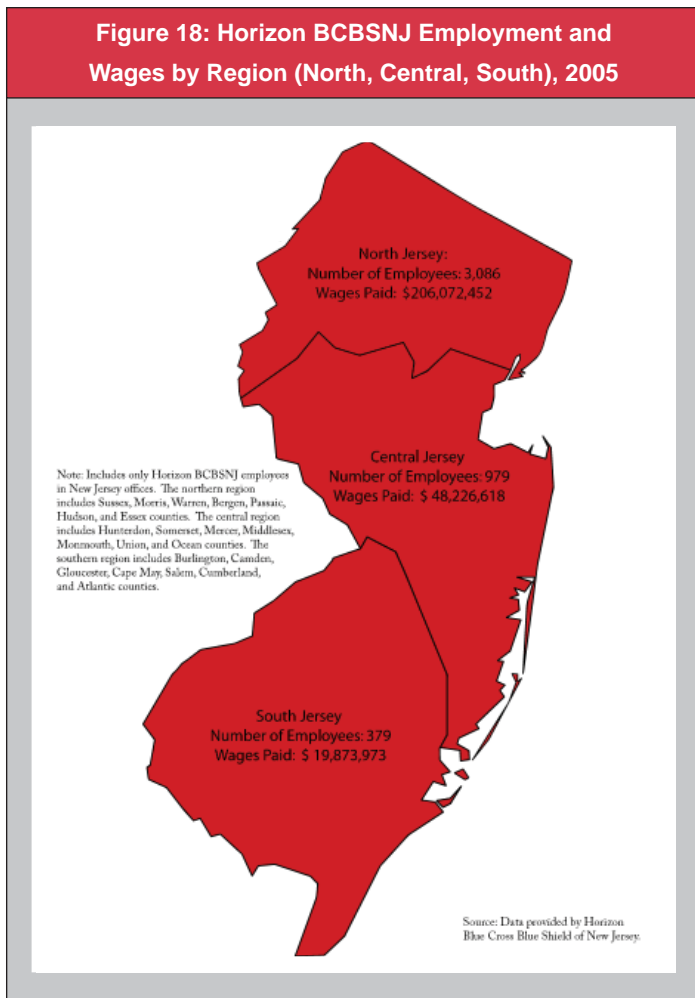
- \$453.6 million in employee compensation (including wages, commissions, payroll taxes and benefits);
- \$184.8 million in broker commissions;
- \$24.0 million in advertising;
- \$54.5 million in consulting/contractual staffing;
- \$80.4 million in premium taxes and HMO and other assessments; and
- \$43.7 million in facilities costs.

This total does not include expenditures made by the Horizon Foundation of New Jersey or Horizon BCBSNJ's charitable giving discussed later in this *Issue Brief*.

The contributions of Horizon BCBSNJ's operations to the New Jersey economy are presented in Table 3 in terms of Gross State Product (GSP), employment and total compensation. These contributions are divided into direct and indirect components. The direct contributions represent Horizon BCBSNJ's employment and expenditures, and the GSP associated with these expenditures. The indirect contributions for each indicator represent the multiplier effects that result from the economic activity generated by Horizon BCBSNJ's employees and resulting from non-labor business expenditures. These expenditures "ripple" through the economy, generating further positive economic effects at each round of spending.

Gross State Product is the total value of all newly produced final goods and services in New Jersey and is the indicator generally used to measure the overall size of an economy.¹⁷ It is estimated that Horizon BCBSNJ's 2006 expenditures generated approximately \$935 million in additional Gross State Product in New Jersey. Of this total, approximately \$526 million results from Horizon BCBSNJ's direct expenditures, while an additional \$409 million is generated via the multiplier effects of those expenditures.

Figure 18: Horizon BCBSNJ Employment and Wages by Region (North, Central, South), 2005



resources, commercial accounts, training, network management, sales, actuarial services, marketing, legal services, operations support, and customer service. In 2005, Horizon BCBSNJ also maintained offices in seven locations, including two offices in Newark where the company is headquartered. Other locations include Trenton, Wall, New York, Mt. Laurel, and Harrison.¹⁸

Most (69%) of Horizon BCBSNJ's New Jersey employees were located in the northern counties of New Jersey in 2005 (Figure 18). However, Horizon BCBSNJ is a statewide employer with an additional 22% of workers located in the central counties of New Jersey and 9% in the southern counties. Similarly in 2005, 75% of wages paid to Horizon BCBSNJ's New Jersey employees were to those working in northern New Jersey office locations, while 18% went to those located in the central part of the state, and 7% to those in southern office locations.

Horizon BCBSNJ also works with a diverse list of vendors and contractors. In 2006, Horizon BCBSNJ engaged in relationships with over forty vendors throughout the state. These vendors provide services ranging from data technology and processing to graphic design and payroll. While Horizon BCBSNJ clearly has a robust and active employee population, they also provide benefits to a growing number of retired employees, a population that is nearly one-fourth the size of their current workforce.

Horizon BCBSNJ's efforts to support their workforce were recognized when they were awarded the 2006 Harold R. Hawkey Exceptional Employer Award for their Wellness in Employment, Life and Learning (WELL) program from the Employers Association of New Jersey.⁶ The WELL program helps employees balance work and life by providing an onsite health center, pharmacy concierge services, a backup daycare network, and referral assistance program.

It is estimated that the multiplier effects of the salaries paid by Horizon BCBSNJ, as well as the company's non-labor expenditures, will indirectly generate an estimated 4,614 jobs (mostly in the areas of financial, retail and service industries) in addition to the 4,585 directly associated with Horizon BCBSNJ, for a total of 9,199 jobs. Total compensation including wages and benefits for all direct Horizon BCBSNJ's jobs is estimated at \$454 million, while total compensation for the indirectly generated jobs is approximately \$272.2 million (Table 3).

Horizon BCBSNJ's Role as a Large Employer

Horizon's BCBSNJ's 4,585 employees participate in a broad scope of activities that are critical to achieving the organization's mission. The company employs associates in the areas of finance, case management, utilization review, information systems, human

**Table 4: Annual Direct and Indirect Tax Contributions
Resulting from Horizon BCBSNJ's Economic Activity**

| Revenue Type | Amount |
|--|----------------------|
| State Tax Revenue | \$121,525,700 |
| Local Tax Revenue | \$38,616,100 |
| Total State and Local Tax Revenue | \$160,141,800 |
| Federal Tax Revenue | \$213,006,600 |
| Total Tax Revenue | \$373,148,400 |

Horizon BCBSNJ: Unique Tax Responsibilities

Horizon BCBSNJ maintains significant tax obligations, including payment of federal and state income and payroll taxes, state premium taxes and assessments, as well as municipal property taxes. In 2006, Horizon BCBSNJ paid over \$159 million in taxes and assessments. This total includes over \$44.8 million in federal income taxes; \$41.6 million in NJ state premium tax; \$28.6 million in NJ insurance and health assessments; \$20.8 million in federal payroll tax; \$12.2 in New Jersey state income tax; and \$4.3 million in local property taxes, as well as some additional smaller payments.⁸

As a health service corporation, Horizon BCBSNJ is exempt from paying both state sales and use tax. This exemption meant that Horizon BCBSNJ achieved \$2.8 million in sales tax savings in 2006. While Horizon BCBSNJ does not pay those specific taxes, the corporation is unable to benefit from the tax limitation provision under the New Jersey Premium Tax law that is available to for-profit carriers. As a result of their not-for-profit organizational structure, in 2006, Horizon BCBSNJ reports paying over \$36 million more in taxes than if it had been a for-profit carrier.⁸

In addition to contributions to employment and the economy generally, Horizon BCBSNJ's direct operations and the resulting economic ripple effects also generate significant business and household tax revenues at the state, local, and federal level. Table 4 presents the estimated tax impacts of Horizon BCBSNJ's 2006 expenditures and employment.

An estimated state tax revenue of \$121.5 million was generated as a result of Horizon BCBSNJ's activities. These revenues include the approximately \$80 million in premium taxes and other state assessments noted among Horizon BCBSNJ's 2006 expenditures. It also includes the state income taxes paid by the employees in both the direct and indirect jobs generated through the company's activities in New Jersey, and the sales taxes generated through the spending of those salaries earned both directly and indirectly from Horizon BCBSNJ's economic activity.

The local tax revenues, estimated at \$38.6 million, are distributed throughout the state. They include the direct property taxes paid by Horizon BCBSNJ, but consist primarily of property tax revenues generated by the increased economic activity associated with

Horizon BCBSNJ's operations in the state. That is, as employees in both the direct and indirect jobs spend their salaries on property or property improvements, the local tax base increases. In addition, as Horizon BCBSNJ makes business expenditures and employees in the direct and indirect jobs make consumer expenditures, the resulting increases in business activity also translate into increases in the local property tax base. Together, it is estimated that Horizon BCBSNJ's operations generate approximately \$160 million annually in total state and local taxes.

The federal taxes generated by Horizon BCBSNJ's operations in New Jersey are estimated at \$213 million annually, and include the company's direct federal income and payroll taxes. These revenues also include the various individual income taxes paid by the employees in the direct and indirect jobs associated with Horizon BCBSNJ's activity, and the federal business income tax revenues generated through the economic activity associated with the expenditure of those salaries and Horizon BCBSNJ's operations.

Corporate Citizenship

As the state's largest health insurer and a not-for-profit organization, corporate citizenship and foundation giving are some of the ways that Horizon BCBSNJ contributes to communities in New Jersey. In October 2003, the Horizon Foundation for New Jersey was created with a \$10 million start up grant.⁶ The goals of the Foundation are to promote better health, and improve the quality of life and well-being for New Jersey residents. Horizon BCBSNJ provided an additional \$15 million to the Foundation in 2005 and an additional \$10 million in 2006.⁶

Since its inception, the Horizon Foundation has provided over \$6.2 million in grants to more than 180 organizations to support initiatives focused on health and the arts.⁶ Grants for health programs focus mainly on initiatives that help prevent chronic illness, focus on identifying and treating depression, building health literacy, providing health services to the uninsured

and other special populations, and studies that help to improve health service delivery in the state. With regard to funding for the arts, the grants primarily support initiatives that provide arts education programs, enhance the cultural richness of the community and provide creative and developmental opportunities for New Jersey artists.

In 2005, the Horizon Foundation awarded \$1.5 million in support to more than 50 charitable organizations including the Boys & Girls Clubs of New Jersey, the Women's Heart Foundation, the Jersey City Museum, and the Special Olympics of New Jersey, among others.^{6,19} In 2006, the Foundation's most notable funding initiative was its five-year, \$5 million grant to independent and Federally Qualified Health Centers (FQHCs) in New Jersey. These grants are designed to increase access to care for New Jersey's uninsured and underinsured populations, provide resources to improve health center operations, and increase the services offered to health center patients, who include New Jersey's most vulnerable populations. In addition, the Foundation also funded other selected grants totally \$1.5 million in 2006.⁶

In 2006, Horizon BCBSNJ also partnered with the Robert Wood Johnson Foundation to fund the "2006 New Jersey Health Almanac", prepared by Avalere Health LLC. This *Almanac* provided a comprehensive analysis of the capacity and performance of New Jersey's health care delivery system across a broad scope of domains, including hospital and physician services and regional patterns of utilization. The publication was shared widely with policy makers and stakeholders in an effort to inform the debate around the major challenges confronting New Jersey's complex health care delivery system.

In an effort to address childhood obesity, one of the most critical policy priorities in the state, Horizon BCBSNJ created their *Shape It Up* program. Working with the Ernest Mario School of Pharmacy at Rutgers the State University of New Jersey, Horizon BCBSNJ has reached out to over 150 schools around the state with a program that teaches good nutrition and exercise practices.²⁰

In 2006, Horizon BCBSNJ donated approximately \$2.2 million in corporate charitable gifts which represented 1.3% of pre-tax revenue.⁸ Lastly, in addition to these corporate contributions and activities, Horizon BCBSNJ has also established an expectation that members of the senior executive team volunteer on boards and actively support charitable activities that build and promote healthier communities.

Looking Toward the Future

This *Issue Brief* describes Horizon BCBSNJ's significant role in providing health insurance services, financing care on behalf of its members, and contributing to the broader community as a corporate citizen and major employer in the state. While this *Brief* does not provide a formal evaluation of Horizon BCBSNJ's role in New Jersey, it does seek to describe a broad range of Horizon BCBSNJ's activities in the context of New Jersey's health care system, which includes the challenges of providing affordable coverage, addressing the rising cost of care and improving the quality of health services in the state.

Horizon BCBSNJ has a history and tradition of providing health coverage in New Jersey. Since 1932, Horizon BCBSNJ and its predecessors have evolved into a not-for-profit health service corporation giant that provides health coverage to more than 3.3 million members through a variety of managed care and traditional insurance products. Horizon BCBSNJ is a large and continued presence in markets that have traditionally been difficult to sustain, including the individual market and the Medicare managed care program. In addition, they have a substantial role in providing services to particularly vulnerable populations, including Medicaid and NJ FamilyCare clients.

Horizon BCBSNJ managed \$7.6 billion in payments for health care services in the state in 2005, a figure that has been growing and now approaches one in six health care dollars spent in New Jersey. As the state's largest health insurer, Horizon BCBSNJ has

unique leverage to improve health care in the state. As well, Horizon BCBSNJ contributes to the general well-being of New Jersey residents through both its work with local communities and as a major employer. As of 2005, Horizon BCBSNJ employed a workforce of approximately 4,500, paying more than \$360 million in wages and benefits.

As a result of its rich history and distinction as the largest carrier in New Jersey, Horizon BCBSNJ will continue to play a prominent role as policy makers analyze both public and private options to improve all aspects of New Jersey's health care delivery system.

Endnotes

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