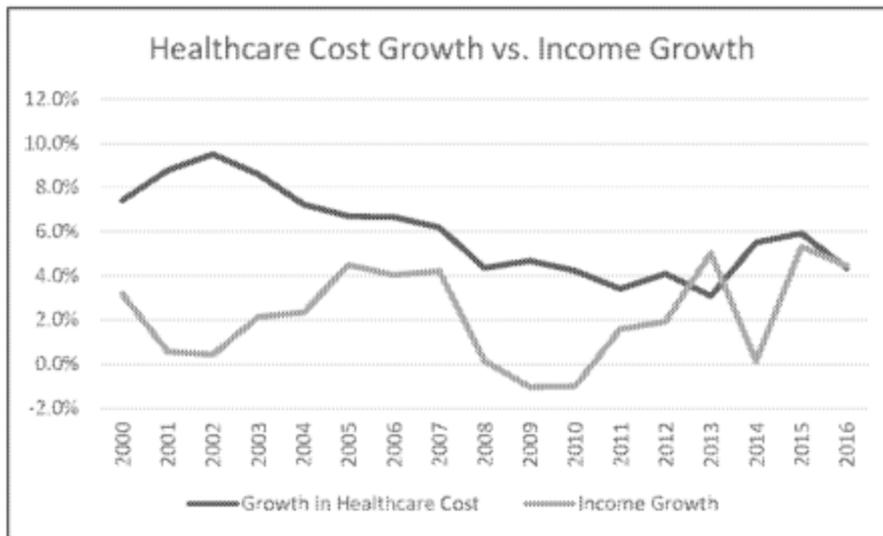




Core Issue – Healthcare Costs Are Growing Faster Than Income

We believe one of the core issues over recent years related to increases in bad debt, volume and mix pressure, etc. lies in our view that the cost of healthcare in the U.S. has been generally growing at a faster rate than income growth. We believe there are many reasons that can help explain why this dynamic exists, but at the end of the day it's our view that healthcare becomes harder to afford (for individuals, corporations, etc.) as this trend persists. And although some reasons that drive this disparity could relate to inefficiency, fraud, and abuse (and these could be targeted to bend the cost curve), we also acknowledge that part of the reason healthcare costs have grown at an outsized rate is that we (the patients) consume a significant amount of healthcare and in a relatively convenient way. In addition, we have experienced better outcomes for various diseases and conditions, and we generally live longer. According to data360.org, the average life expectancy for males and females in the U.S. in 2017 will be 79.4 years. And this is up from 76.6 in 2000. Figure 5 depicts the relationship of healthcare cost growth versus income growth since 2000.

Figure 9: Healthcare Cost Growth vs. Income Growth



Source: Deutsche Bank, CMS, U.S. Census Bureau