

Federal Reform Update and What's Next

Washington Association of Health Underwriters

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Agenda

- Federal Reform Update
- Early State Reforms – MA, UT and VT
- Market and Cost Impacts for Purchasers
- How Could It All Evolve?
- Current Political Scene
- Q&A

Federal Reform Update

Key Elements of Health Reform

Cost and Quality

- Comparative Effectiveness Research
- Health Information Technology
- Wellness and Prevention
- Care Coordination and Practices
- Pay for Value
- Medicare Program Payment Reform

Insurance Market Reform and Access

- Guaranteed Issue & Individual Mandate
- Adjusted Community Rating
- Minimum Loss Ratios
- Essential Benefit Packages
- Employer Mandate
- Exchange / Connector

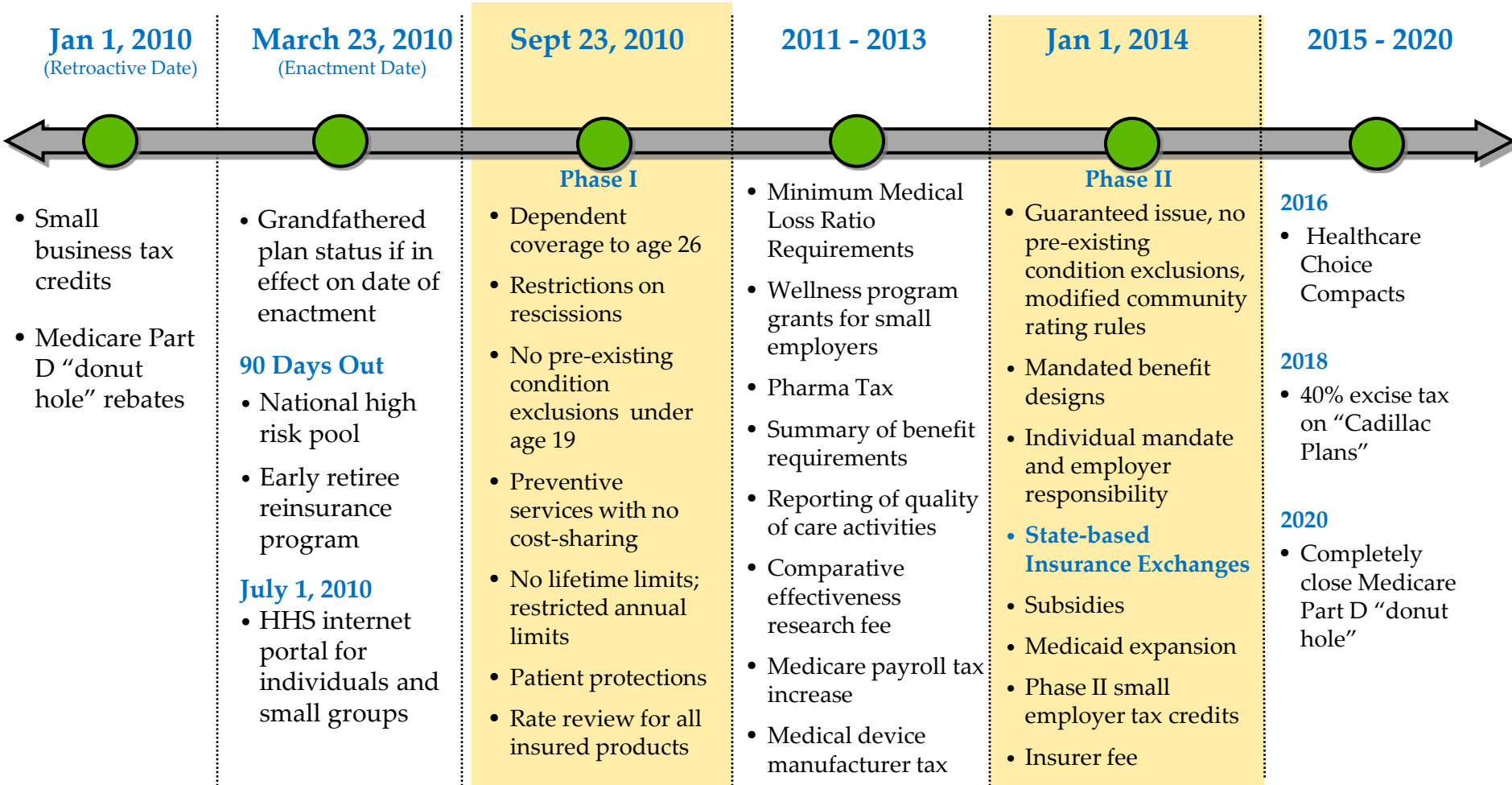
Subsidies

- Low Income Subsidies
- Small Employer Subsidies
- Public Program Expansion (e.g., Medicaid)

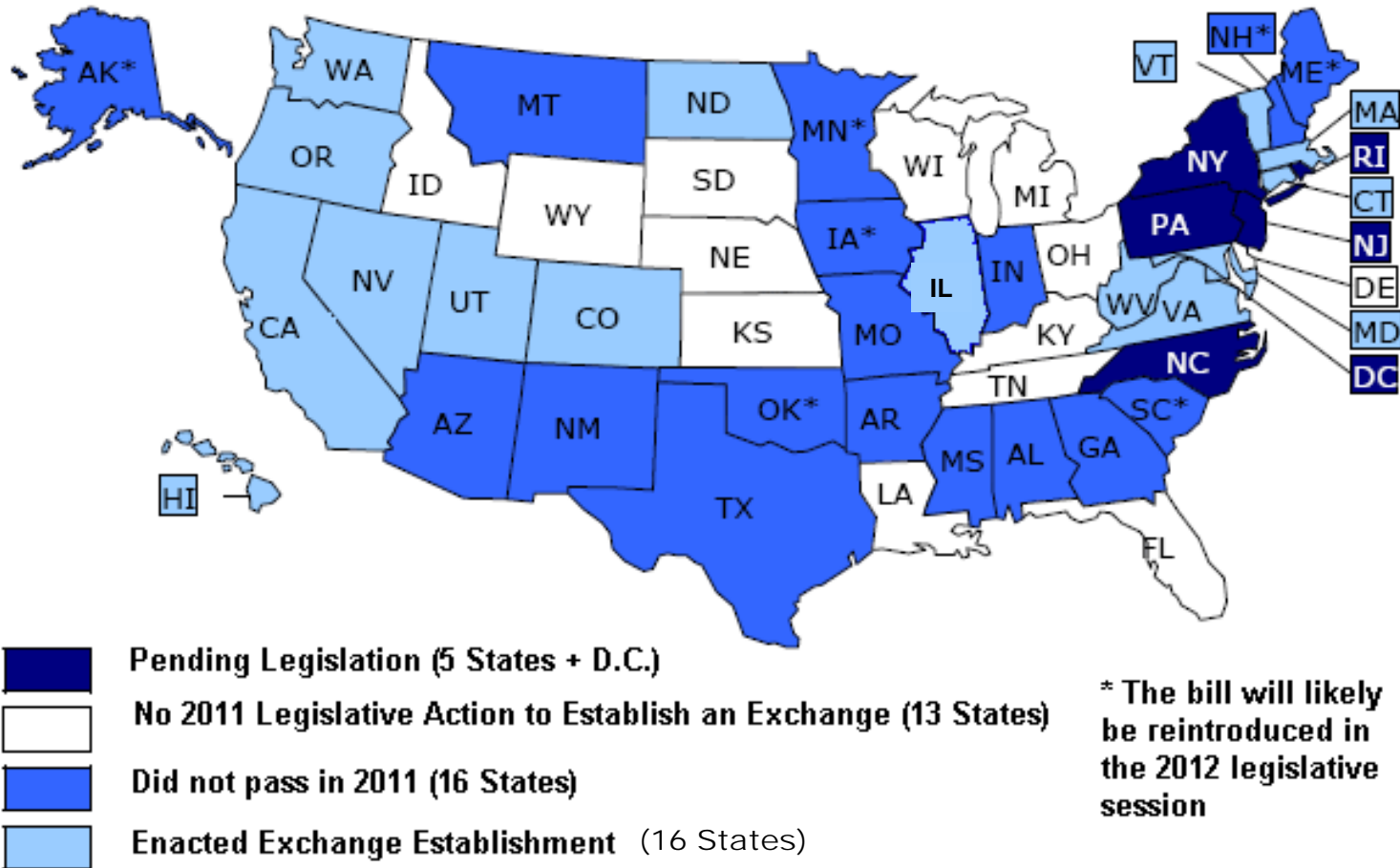
Financing

- Modify Tax Exclusion on Health Benefits
- Tax on High Income Wage Earners
- "Sin" Taxes
- Medicare Advantage / Medicare Cuts
- Insurer Tax
- "Cadillac" Plan Tax

Timeline of Healthcare Reform



State Healthcare Exchange Legislation



Source: National Conference of State Legislatures, July 2011

Proposed HHS Exchange Rules

- States provided a great deal of flexibility in developing Exchanges
- Specific components:
 - **Plan eligibility:** states can allow all qualified plans into Exchange, use competitive bidding or selective contracting
 - **Governing board:** cannot have a majority of voting representatives with a conflict of interest, including health plans, agents, brokers, etc.
 - WA Exchange legislation (SB 5445) stipulates a 9-member board and restricts member financial conflicts of interest
 - **Open enrollment periods and special enrollment periods**
 - **Employer versus employee choice:** employers can keep their group together by selecting a health plan for their employees or employee choice
 - **“Three R’s rule”:** creates temporary reinsurance and risk corridor programs and a permanent risk adjustment program, but conveys more questions than answers

Early State Reforms – MA, UT and VT

Massachusetts

- Established the Health Connector in 2006
- Individual mandate and employer mandate
- Outcomes:
 - 10.3% uninsured → 1.9% uninsured
 - Wide price variation across plans
 - Implementation issues: expensive, public opinion and confusion
 - Still has highest insurance costs (\$13,788/family) in the U.S.
 - Will need to control costs to be sustainable
 - Gov. Patrick filed legislation in Feb 2011 to expand use of alternative provider payment methods, such as global and bundled payments, and significantly reduce fee-for-service payments by 2015. Bill is currently caught up in hearing process.

Utah

- Utah Health Exchange is a Web portal for employees to compare and select health plans
- Piloted in 2009 for small employers (less than 50 employees), expanded to small and large employers in 2011
- Outcomes:
 - 11.9% uninsured → 10.6% uninsured
 - Slow process: predicted 10 years to fully implement
 - High adverse selection until single risk pool development (Mar 2010)
 - Limited funding and staffing
 - Large employers not included in 2010 pilot will be eligible to enroll in the Exchange beginning Jan 2012

Vermont

- Catamount Health is a comprehensive health benefit plan for uninsured, began in 2007
- Subsidies offered based on income level and family size
- Outcomes:
 - 12% uninsured → 10% uninsured
 - Meager enrollment numbers
 - \$6 million operating deficit (FY 2011)
 - May 2011: Governor Peter Shumlin (D) signed a single-payer bill
 - Funded by a 12.5% payroll tax
 - Estimating \$5 million/year in savings



Market and Cost Impacts for Purchasers

Uncertainty in a New Environment

- Enormous ambiguity in the market as employers and individuals consider reform impacts and options
- Purchaser: Will there be a fundamental market shift in the way people buy insurance over the next 10 years?
 - Will employers continue to offer coverage?
 - Will the individual mandate be effective?

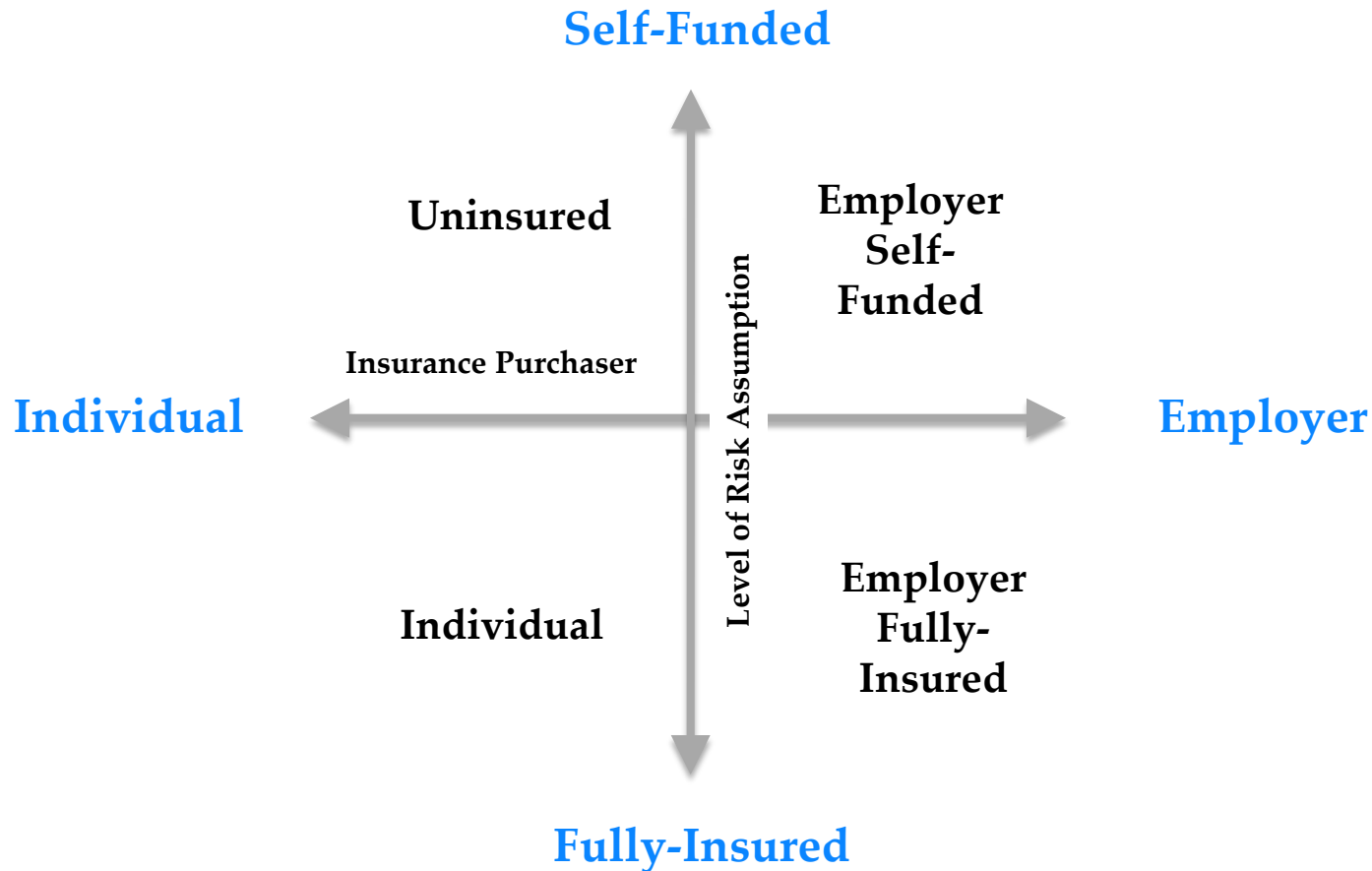
Market Predictions Vary Greatly

Predicted Increase in Individual Market for 2014¹

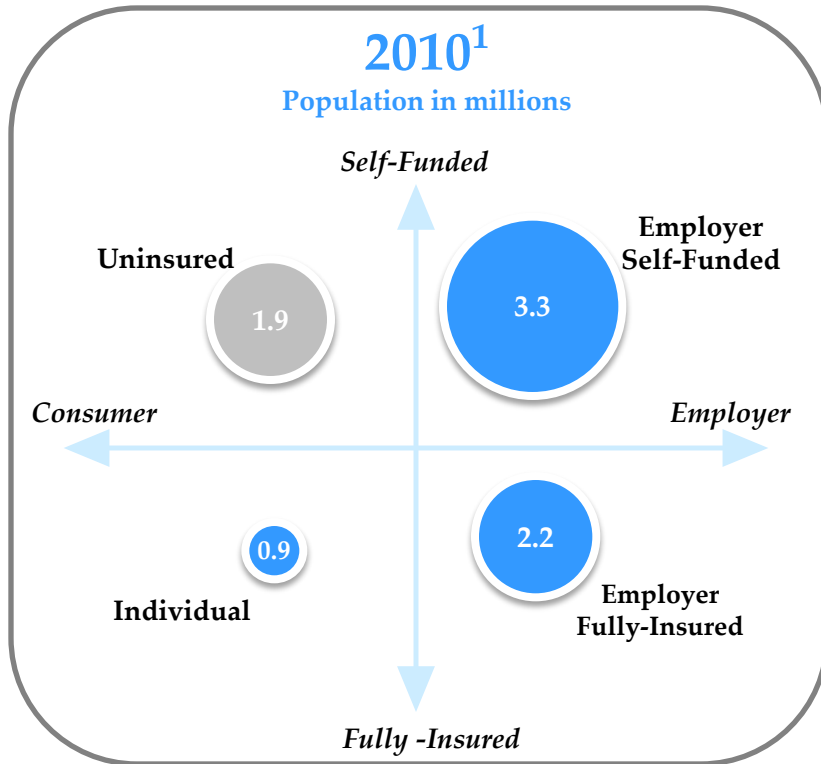
	(millions)	(% Growth) ²
 CMS <small>CENTERS for MEDICARE & MEDICAID SERVICES</small>	2.7	15%
 CONGRESSIONAL BUDGET OFFICE <small>U.S. Congress Washington, DC 20515</small>	5.4	31%
 BARCLAYS	7.3	42%
OLIVER WYMAN	9.3	53%
 booz&co.	9.6	55%
 McKinsey&Company	15.4 – 57.1	88% - 326%

Notes: (1) Illustration reflects national forecast
 (2) % growth represents changes between 2013 and 2014

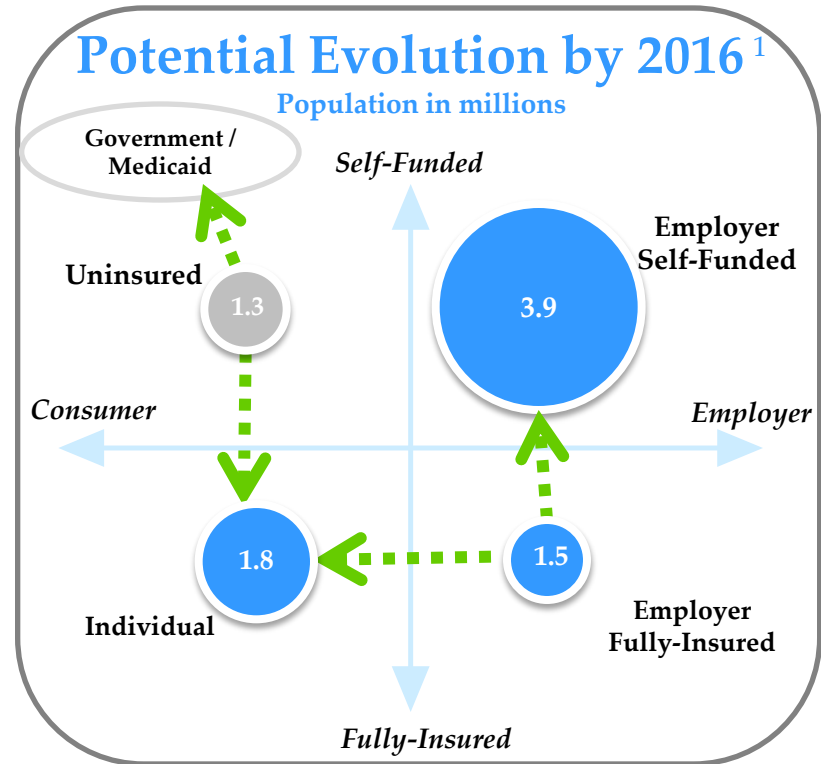
Purchaser Behavior



Purchaser Behavior



Total Commercial Market = 6.41 million²

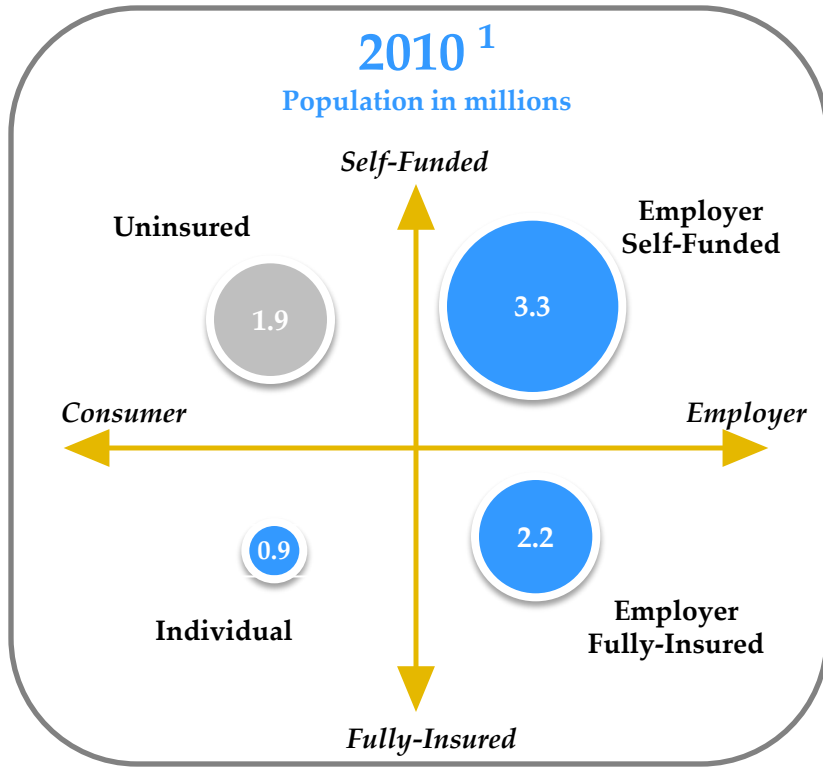


Total Commercial Market = 7.2 million²

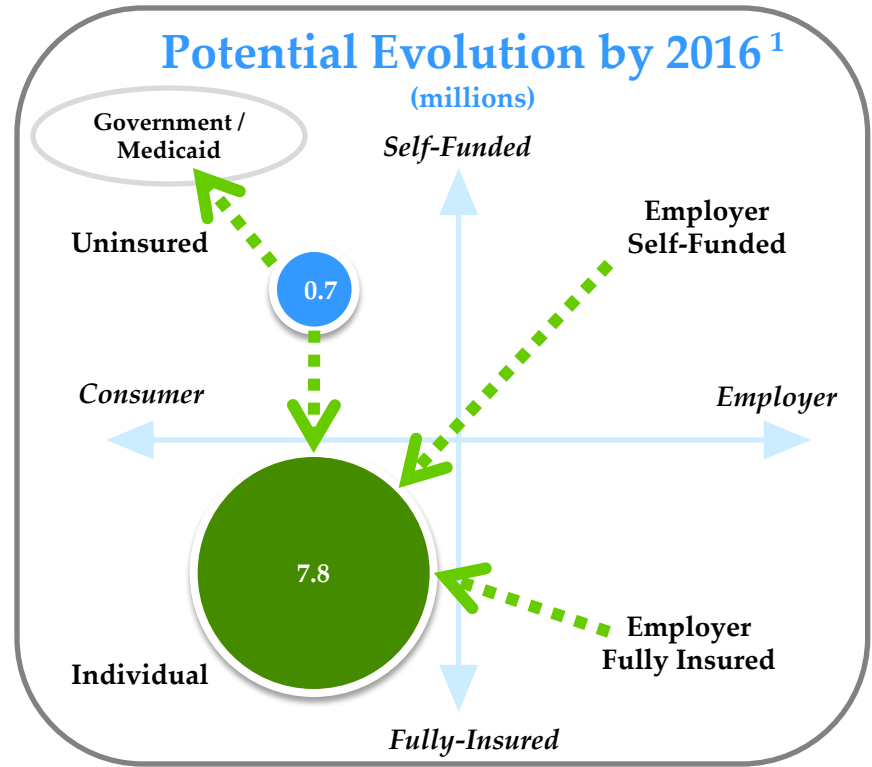
1. The numbers are in millions and represent Premera's forecast of the population in the WA, AK, & OR region, excluding government
2. Commercial market based on WA, AK & OR population, excluding government & uninsured

.....➤ Indicates movement of population

Individual Purchaser Scenario



Total Commercial Market = 6.41 million²



Total Commercial Market = 7.8 million²

1. The numbers are in millions and represent Premera's forecast of the population in the WA, AK, & OR region excluding government
2. Commercial market based on WA, AK & OR population excluding government & uninsured

...➔ Indicates movement of population

Reform and Costs

“Growth in spending on health care programs remains the central fiscal challenge. In CBO’s judgment, the health care legislation enacted earlier this year made a dent in the problem, but did not substantially diminish that challenge.”

Director Douglas Elmendorf, Congressional Budget Office

July 1, 2010

Reform and Spending

- \$1 trillion cost estimate for 6 years of subsidies
 - \$2.3 trillion estimated for 10 full years
- Medicare cuts would make provider payments fall below Medicaid
- \$410 billion tax increase over 10 years
- If 35 million low wage workers leave their employer-sponsored plans, federal spending will increase another \$1 trillion

Douglas Holtz-Eakin, President of American Action Forum, former Director of CBO

Joseph Antos, former Assistant Director at CBO

James Capretta, former Associate Director of Office of Management and Budget

“Health Care Repeal Won’t Add to the Deficit, WSJ, January 19, 2011

Impacts of Reform on Premiums

Reform will increase access to coverage, but changes to benefit plans and new taxes/fees will drive costs higher

2010 Provisions	2014 Provisions
<ul style="list-style-type: none">• No dollar lifetime maximums• Restrictions on annual limits• Preventive care with no cost sharing• No pre-existing condition exclusions for enrollees under age 19• Dependent age extension to age 26	<ul style="list-style-type: none">• Mandated essential health benefit packages• Guaranteed issue with weak individual mandate• Adjusted community rating• Insurer fee

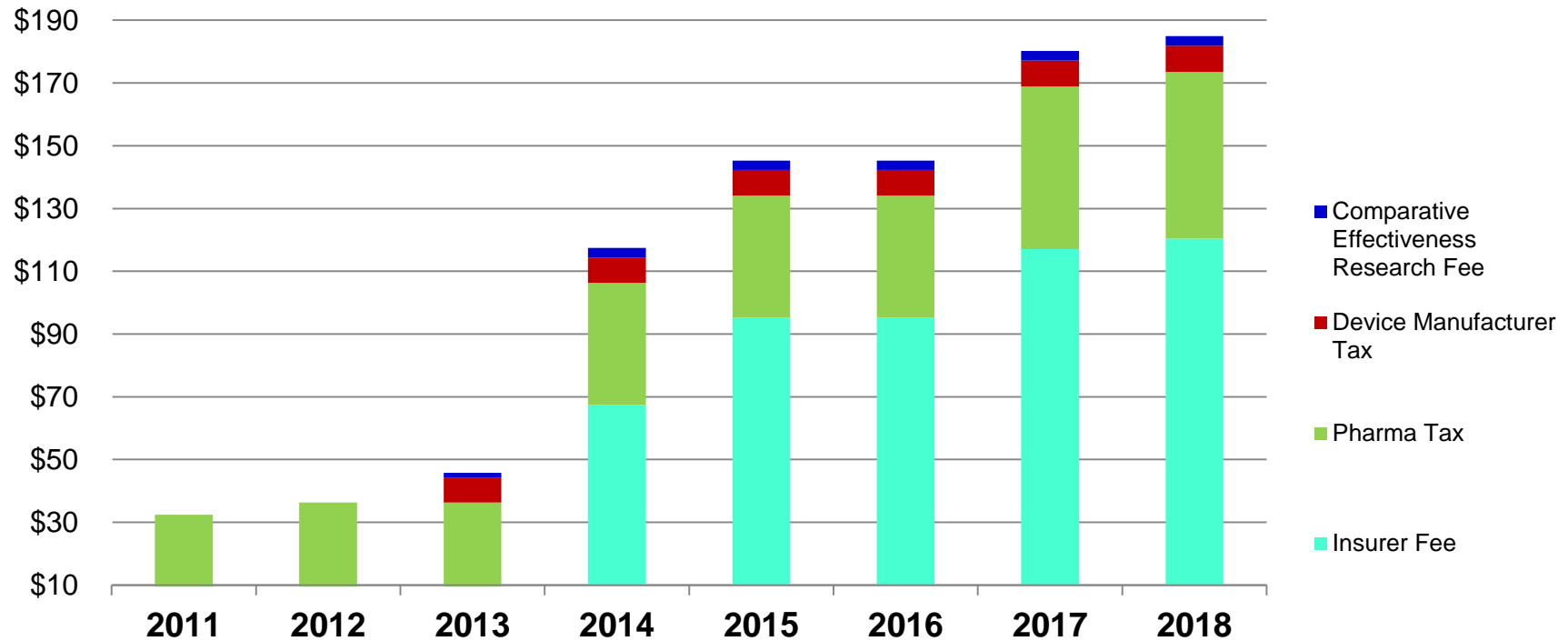
2 - 6% Rate Impact



↑ ? Rate Impact

Estimated Impact to Premera from New Taxes and Fees

(\$ in millions)



Aggregate

\$32.4M	\$36.3M	\$45.8M	\$117.4M	\$145.3M	\$145.3M	\$180.2M	\$184.9M
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Aggregate estimated impact to Premera and affiliates
Assumes pass through from providers

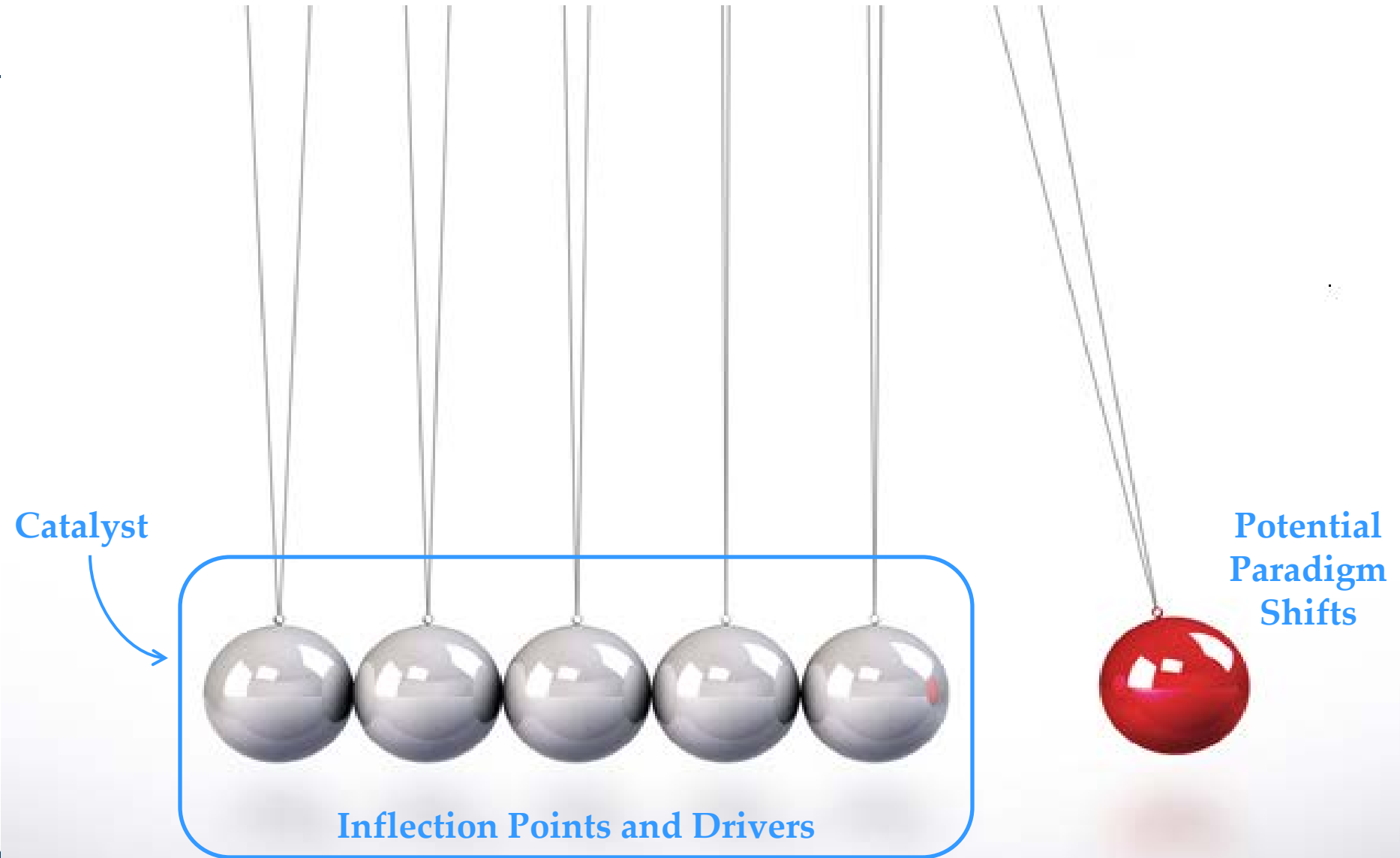
New Taxes and Fees

- Taxes and fees in the ACA will increase premium levels by approximately 8% by 2016

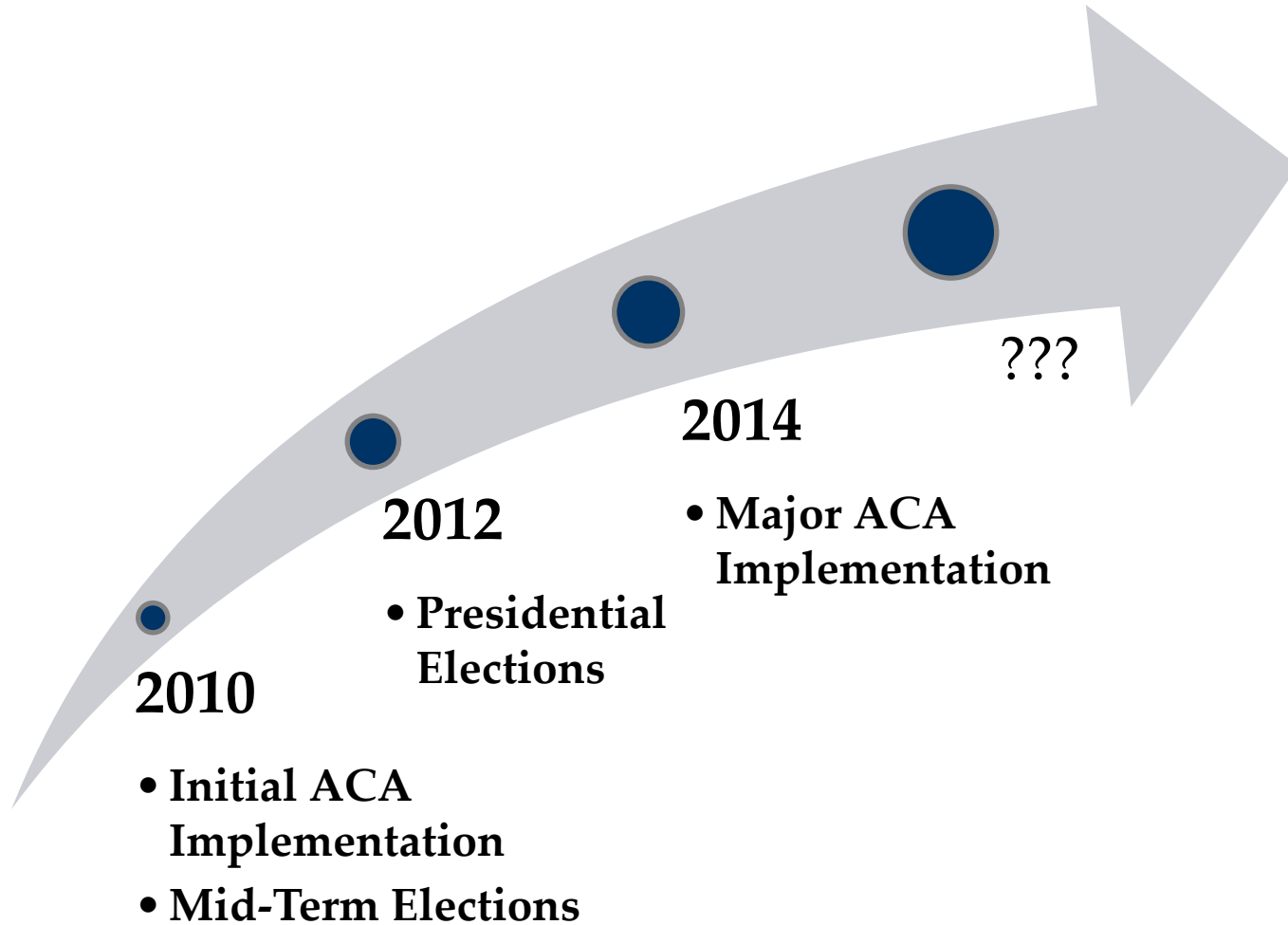
Taxes and Fees	Rate Impact (% of Premium)
Health Insurer Tax	3.2%
DME Tax	0.1% (estimated)
Pharmacy Tax	1% (estimated)
Exchange Assessment	4% (estimated)
Total – New Taxes	8.3%

Source: Premera Underwriting

How Could It All Evolve?



Inflection Points for Change



Potential Catalysts

Insurer or provider
financial stress

2014 freeze-up
of system

Massive
implementation
challenges

Accountable Care
Organizations

Massive federal and
state deficits

Underlying cost of
healthcare

Employer market
implosion

Cost implications
of ACA

State innovation
waivers

Court challenges
to reform law

Current Political Scene

Current Political Scene

- Washington State 2012 Governor's Race
- Washington State 2012 Legislative Race
- Federal Congressional 2010 Elections

Questions?
