

The Lehigh Valley Business Coalition on Healthcare

The U.S. Health Care System:  
A Market and Policy Update

May 4, 2017

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**Health Policy and Strategy Associates, LLC**

**Washington, DC**

Today, more of a progress report of a market  
and policy landscape in transition.

The Promise of Political Change Like We Have Never  
Seen

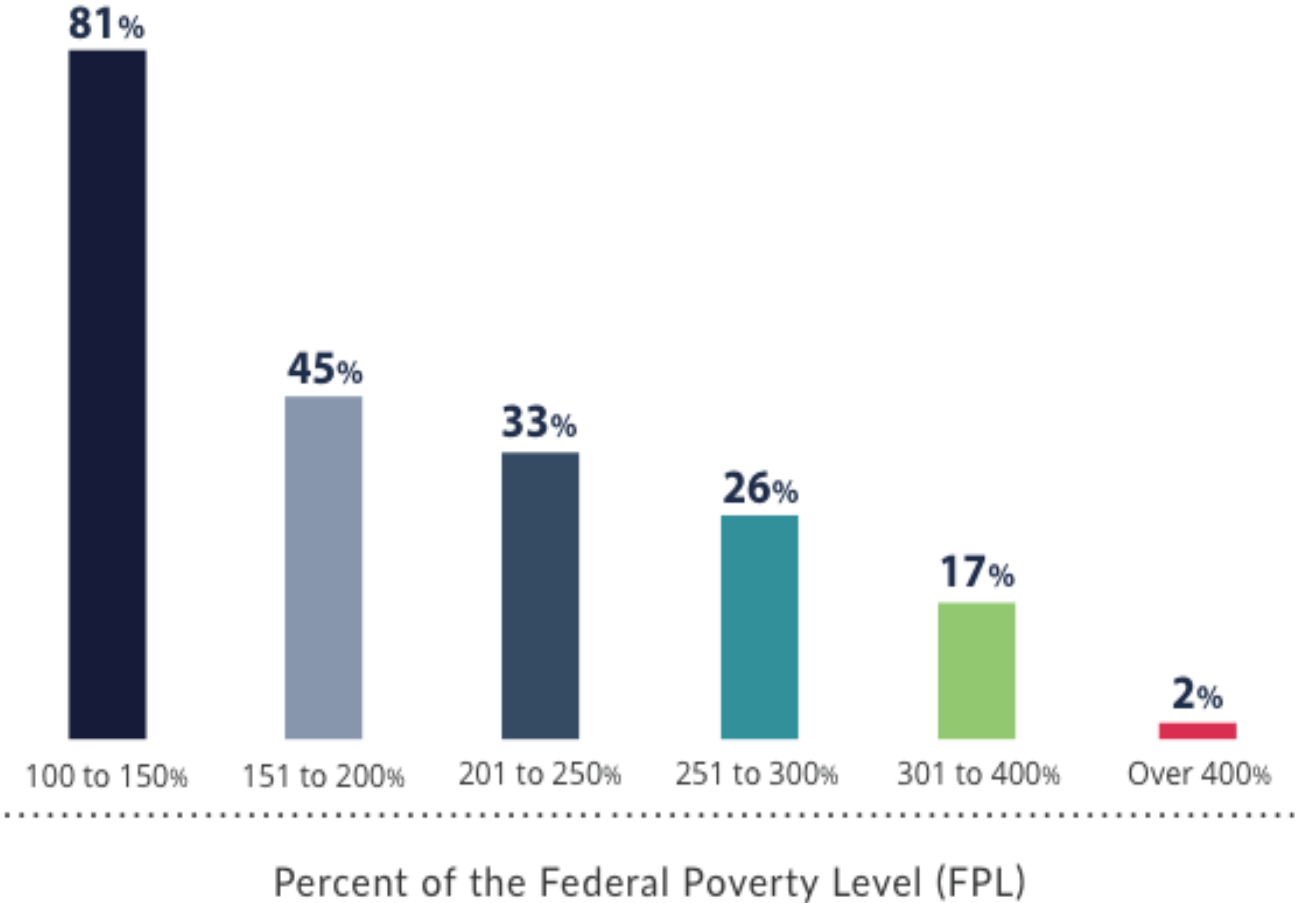
Resulting Upheaval in the Health Care Markets

In 20 Years Health Care Will Still Be the Biggest  
Industry in America

Those That Survive and Flourish Will Be the Ones  
Flexible Enough to Adapt

# The Affordable Care Act “Obamacare”

# PERCENT OF POTENTIAL EXCHANGE POPULATION MAKING MARKETPLACE PLAN SELECTIONS IN 2016, BY INCOME



Source: Avalere Analysis, May 2016

# Three Lowest Cost Obamacare Exchange Plans

## Family of Four, Mom and Dad Age 40

### Bethlehem

#### Geisinger Health Plan · Geisinger Marketplace HMO 30/60/3500

Silver | HMO | Plan ID: 22444PA0010032

<p>Estimated monthly premium</p> <p><b>\$1,425.46</b></p>	<p>Deductible</p> <p><b>\$7,000</b></p> <p>Family Total</p>	<p>Out-of-pocket maximum</p> <p><b>\$14,300</b></p> <p>Family Total</p>	<p>Copayments / Coinsurance</p> <p>Emergency room care: \$250 Generic drugs: \$20 Copay after deductible Primary doctor: \$30 Specialist doctor: \$60</p>	<p>Estimated total yearly costs</p> <p><a href="#">EDIT</a></p>	<p>DOCTORS, FACILITIES &amp; DRUGS COVERED</p> <p><a href="#">EDIT</a></p>
<a href="#">QUICK VIEW</a>	<a href="#">DETAILS</a>			<a href="#">COMPARE</a>	<a href="#">LIKE THIS PLAN</a>

#### Capital BlueCross · Silver PPO 4500/0/10

Silver | PPO | Plan ID: 45127PA0020008

<p>Estimated monthly premium</p> <p><b>\$1,518.34</b></p>	<p>Deductible</p> <p><b>\$9,000</b></p> <p>Family Total</p>	<p>Out-of-pocket maximum</p> <p><b>\$14,300</b></p> <p>Family Total</p>	<p>Copayments / Coinsurance</p> <p>Emergency room care: \$150 Generic drugs: \$5 Copay after deductible Primary doctor: \$10 Specialist doctor: \$20</p>	<p>Estimated total yearly costs</p> <p><a href="#">EDIT</a></p>	<p>DOCTORS, FACILITIES &amp; DRUGS COVERED</p> <p><a href="#">EDIT</a></p>
<a href="#">QUICK VIEW</a>	<a href="#">DETAILS</a>			<a href="#">COMPARE</a>	<a href="#">LIKE THIS PLAN</a>

#### Highmark Health Insurance Company · My Lehigh Valley Flex Blue PPO 2900S

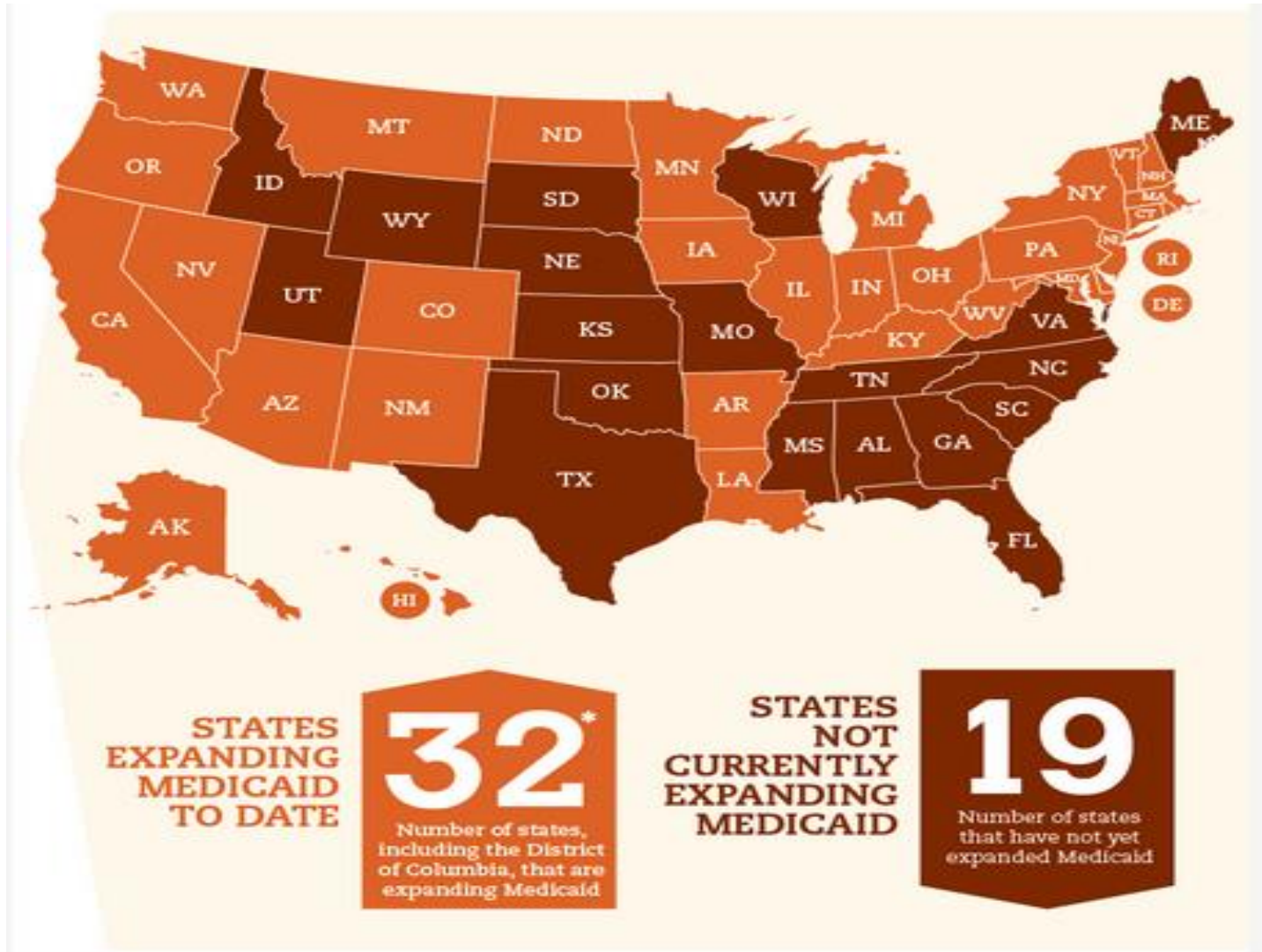
Silver | PPO | Plan ID: 70194PA0520002

<p>Estimated monthly premium</p> <p><b>\$1,592.70</b></p>	<p>Deductible</p> <p><b>\$5,800</b></p> <p>Family Total</p>	<p>Out-of-pocket maximum</p> <p><b>\$14,300</b></p> <p>Family Total</p>	<p>Copayments / Coinsurance</p> <p>Emergency room care: 30% Coinsurance after deductible Generic drugs: 15% Primary doctor: \$50 Specialist doctor: \$80</p>	<p>Estimated total yearly costs</p> <p><a href="#">EDIT</a></p>	<p>DOCTORS, FACILITIES &amp; DRUGS COVERED</p> <p><a href="#">EDIT</a></p>
<a href="#">QUICK VIEW</a>	<a href="#">DETAILS</a>			<a href="#">COMPARE</a>	<a href="#">LIKE THIS PLAN</a>

# The Trump Administration Can Make Things in the Individual Health Insurance Market Much Worse

- Trump's IRS has indicated that it is not going to enforce the individual mandate penalties for taxpayers who leave questions about coverage unanswered.
- The Trump administration can allow a court ruling to stand that would immediately cut off the exchange insurers cost sharing subsidies for low income people.
- The average subsidy is \$1,000 per covered person and about half of those subsidized get them.
- For health plans, on a block of 100,000 insured eligible for the cost sharing subsidy, that works out to a shortfall of \$100 million annually, or about \$8 million a month.

# Medicaid Expansion





# Medicaid Costs Coming in More Expensive Than Expected in Many States

- Arkansas: More than 307,000 have signed up exceeding original projection of 250,000 and state is asking the feds to be able to charge some enrollees premiums.
- Kentucky: 400,000 enrolled, double the original projection. Governor asking permission to charge premium of \$15 a month and wants some to perform community service.
- Ohio: 715,000 enrolled compared to 447,000 originally estimated. State share of spending double the original estimate of \$56 million.
- States will pay 5% of costs in 2016 and 10% in 2020.

# The Pennsylvania Medicaid Expansion

- Pennsylvania Health Care Cost Containment Council 2017 report.
- Pennsylvania hospitals' uncompensated care dropped 13.3 percent statewide and 8.21 percent regionally last year.
- 168 general acute care hospitals reported that their uncompensated care went from \$975 million in fiscal 2015 to \$846 million last year.
- Under the ACA Medicaid expansion, 1 million gained coverage for a total of 2.7 million out of PA's 12.8 million residents.

# The Medicaid Expansion

- From 2013 to 2016, Medicaid enrollment grew from 56 million to 74 million—a 32% increase over three years.
- Of which 49 million were in managed care plans.
- 77% of the growth took place in expansion states.
- The per person cost of expansion was \$6,366 in 2015—49% higher than the anticipated cost of \$4,281 as calculated by CMS.

# The Republican Effort So Far to “Repeal and Replace Obamacare”

# The Affordable Care Act Versus the American Health Care Act

- The ACA most benefited lower-income people—the Medicaid expansion and the best premium subsidies and out-of-pocket assistance for those below 250% of the federal poverty level.
- The House Republican plan would most benefit working and middle-class people with more generous premium subsidies at the expense of those under 250% of the poverty level and an eventual repeal of the Medicaid expansion.
- The Republicans would cut taxes by \$800 billion for those making over \$200K, the drug industry, the medical device industry, insurers, and others.

# What the House Republican Plan Would Keep

- Cover pre-existing conditions;
- Guarantee availability and renewability;
- Cover adult children to age 26 on parent's plans;
- Cap out-of-pocket expenditures;
- Prohibit health status underwriting;
- Benefit mandates;
- Lifetime and annual limits; and
- Prohibitions on discrimination on the basis of race, nationality, disability, age (age rating allowed), or sex.

# House Republican Plan

## What It Would Change

- Repeal the ACA's employer and individual mandate taxes/fines, as well as the ACA's individual income, provider, and insurer taxes.
- Provide fixed-dollar advanceable tax credits, adjusted for age, but not for income or geography, which could be used to purchase any state-approved individual market plan (on and off exchange).
- \$2,000 per person at age 30 and \$4,000 per person at age 60 and increasing annually at CPI+1%.
- Cost sharing assistance for the low-income (below 250% of poverty) would end in 2020.

## House Republican Plan...

- Consumers would have to remain continuously covered—no more than a 63-day break in coverage.
- If they exceeded a 63-day break in coverage, they could immediately sign-up for coverage but would pay a 30% premium surcharge for one-year.
- Roll back the 2014 Medicaid Expansion - Phase out funding for the Medicaid expansion—freeze eligibility for everyone on Medicaid at the end of 2019 and then starting in 2020 roll back eligibility to 2013 levels for new entrants.



## House Republican Plan...

- In 2020, would move federal Medicaid funding to a per-capita or block grant basis using FY 2016 as the base year and then increased from the base year by medical CPI+1%.

# The CBO Estimates

- Prior to the Congressional Budget Office (CBO) estimates, a number of other organizations waded in.
- S&P Global estimated that six to 10 million would lose coverage under the House Republican plan—2 to 4 million in the exchanges in 2019 and 4 to 6 million in Medicaid by 2024.
- Brookings has estimated that at least 15 million would lose coverage under the House Republican proposal by the end of the ten-year scoring window.
- The CBO estimates that 14 million would lose coverage in 2018, 21 million by 2020, and 24 million by 2026.

# Republican Disagreements Among Themselves

- Refundable tax credits versus tax deductions—the most conservative Republicans do not want to continue individual health insurance premium subsidies.
- Ending the Medicaid expansion. Some traditionally Republican states (Ohio, Indiana, Arizona, Iowa, Arkansas, West Virginia, and North Dakota) have expanded and it would be unpopular to take Medicaid benefits away.
- Republican Senators Rand Paul, Ted Cruz, and Mike Lee are reluctant to support what they regard as “Obamacare lite.”

# Republican Leaders and the Democrats

- Trump and the Republican leadership have said that everyone should at least have access to health insurance. The Democrats generally agree.
- Trump and the Republican leadership have said that we should keep the pre-existing condition reforms and kids should be able to stay on their parent's plans until age-26. The Democrats agree.
- Trump and the Republican leadership believe that there should be advanceable tax credits — premium subsidies — available to those in the lower and middle-income categories. The Democrats generally agree.
- Trump and the Republican leadership believe that, while continuing to protect consumers, the insurance-market rules need to be made more efficient so that the insurance companies can have the vibrant market they need to offer consumers the insurance products they want. The Democrats generally agree.

What will the health plans left in the insurance exchange market now do?



**Donald J. Trump** ✓

@realDonaldTrump

 Follow

ObamaCare will explode and we will all get together and piece together a great healthcare plan for THE PEOPLE. Do not worry!

10:37 AM - 25 Mar 2017

  21,513  97,919

# The Health Plans

- Still poor underwriting results in the individual health insurance market, the threat of having the cost sharing subsidies suddenly ended, and no enforcement of the individual mandate, all create a chaotic environment.
- For the most part, the big publically traded health plans have already pulled out of the exchanges.
- That leaves the market backbone plans—Blue Cross and regional not-for-profit HMOs.
- Most of these market backbone plans will likely remain for 2018—albeit with a conservative approach to the market.

## The Health Plans...

- The subsidized consumers (up to 400% of the federal poverty level) are protected against big rate increases.
- But the almost half of the individual health insurance market that do not receive subsidies are wide-open to big rate and out-of-pocket increases.
- It is the unsubsidized market—the biggest losers in all of this—that are more often Republican/Trump voters.



# The Republicans Have a Tiger by the Tail!

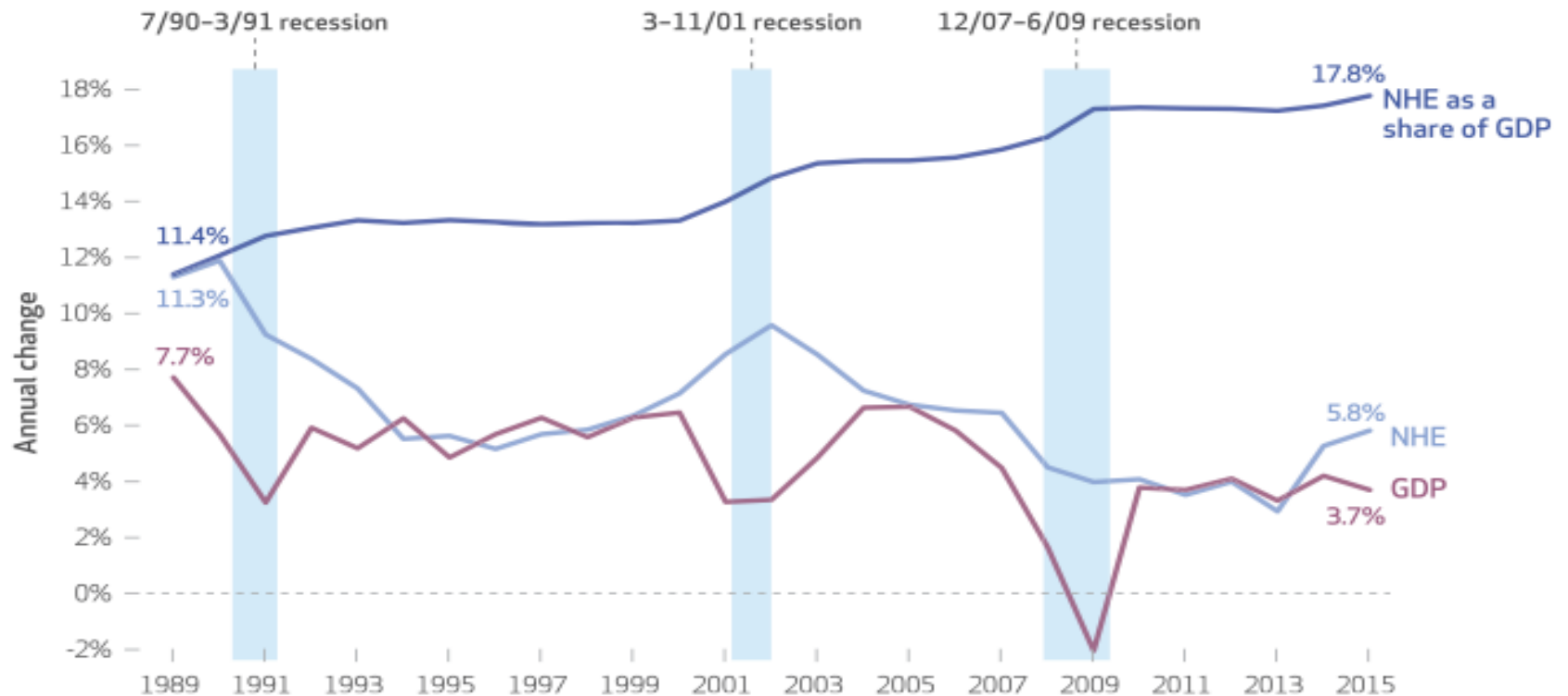
- Seven years of promises to “repeal and replace.”
- A very unpopular House Republican bill that would force millions to lose their health insurance.
- Interparty warfare over the House Republican bill.
- The likelihood that Republicans will need Democratic support for any final legislation.
- The entire Republican agenda—including tax cuts—caught up behind the House Republican jam up over Obamacare.
- The Democrats know they have lots of leverage.

# The Market

# Health Care Inflation Ticking Up

## EXHIBIT 2

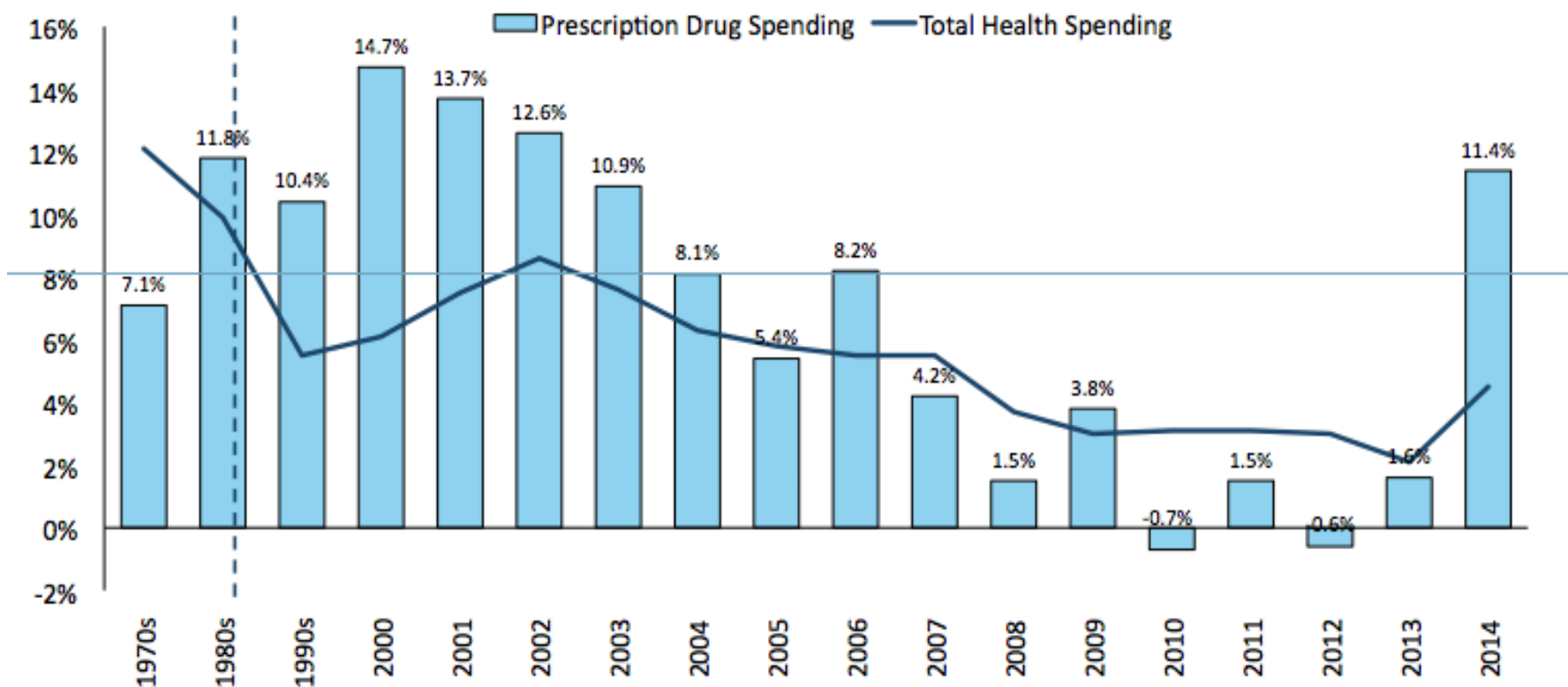
Growth in national health expenditures (NHE) and gross domestic product (GDP), and NHE as a share of GDP, 1989–2015



**SOURCES** Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group; US Department of Commerce, Bureau of Economic Analysis; and National Bureau of Economic Research Inc.

# After several years of modest growth, prescription drug spending rose sharply in 2014

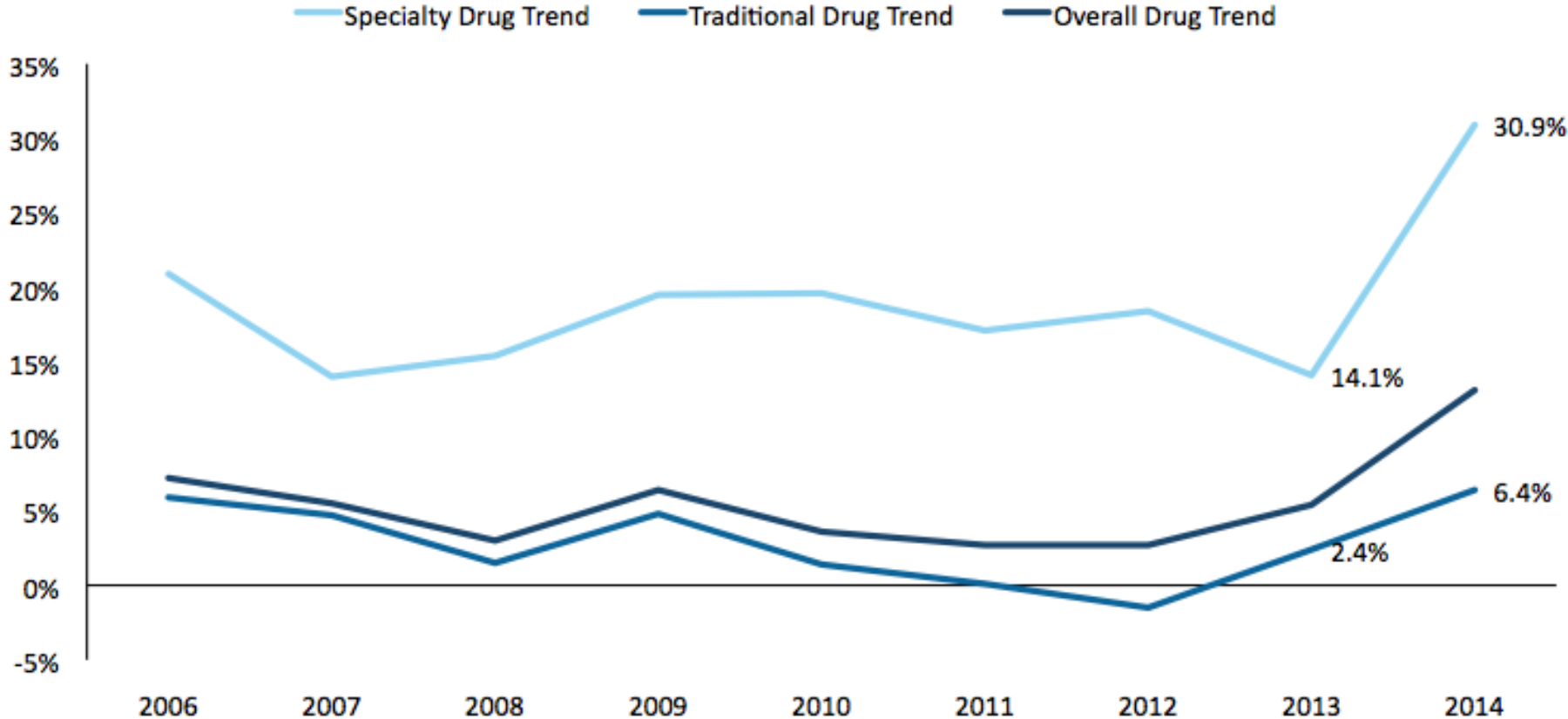
Average annual growth rate of prescription drug spending per capita for 1970's – 1990's;  
Annual change in actual prescription drug spending per capita 2000 – 2014



Source: Kaiser Family Foundation analysis of National Health Expenditure (NHE) Historical (1960-2014) data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group (Accessed on December 7, 2015)

# Costly new specialty drugs are a major driver of increased health spending

Express Scripts drug spending growth trend by therapy class, 2006 -2014



Source: Express Scripts 2014 Drug Trend Report and Year in Review. Available at <http://lab.express-scripts.com/drug-trend-report/> and <http://lab.express-scripts.com/drug-trend-report/introduction/year-in-review>

# Generic Drug Price Increases

Drug	Use	Average Market Price Oct. 2013	Average Market Price April 2014	Average Percentage Increase
Doxycycline	antibiotic	\$20	\$1,849	8,281%
Albuterol	used to treat asthma and other lung conditions	\$11	\$434	4,014%
Glycopyrrolate	used to prevent irregular heartbeats during surgery	\$65	\$1,277	2,728%
Drug	Use	Average Market Price Nov. 2012	Average Market Price Sept. 2014	Average Percentage Increase
Isuprel	used to treat heart attacks and irregular heartbeat	\$916	\$4,489	390%
Nitropress	used to treat congestive heart failure and reduce blood pressure	\$44	\$215	388%
Drug	Use	Average Market Price Oct. 2012	Average Market Price June 2014	Average Percentage Increase
Digoxin	used to treat irregular heartbeats and heart failure	\$0.11	\$1.10	884%

Source: Healthcare Supply Chain Association

# States Sue Generic Drug Companies

- A suit filed by 20 states' attorneys general alleges that at least six major generic drug makers fixed prices.
- Connecticut Attorney General: "The issues we're investigating go way beyond the two drugs and the six companies. Way beyond...We're learning new things every day."

# The Stunning Opacity of the Drug Marketplace



# The Role of Rebates in Drug Pricing

Study by Berkeley Research funded by PhRMA

- Of the \$349 billion that insurers and patients paid for brand-name drugs in 2015, 63% went to manufacturers and the rest to middlemen.
- In 2013, 67% went to manufacturers.
- Overall, branded drug makers paid \$106 billion in discounts, fees, and rebates in 2015, up from \$67 billion in 2013.
- In 2015, health plans and PBMs received \$57.7 billion in rebates, up from \$33.2 billion in 2013.
- Medicaid received \$28 billion in rebates in 2015, up from \$19 billion in 2013.

## The Role of Rebates in Drug Pricing...

- On generic drugs, \$214 billion was spent in 2015 of which about half, \$107.6 billion went to manufacturers.
- In another report, PhRMA issued a report in late March contending that in 20% of the cases, PBMs and insurers are keeping the rebate for themselves and showing consumers the full retail cost.

“We need to ensure patients receive more of the benefit of price negotiations between biopharmaceutical companies and payers,” PhRMA CEO Steve Ubl said in the statement.

“It is a problem that more and more Americans are being asked by their insurers to pay cost sharing based on undiscounted list prices, even though insurers may be receiving significant rebates. Providing access to discounted prices at the point-of-sale could dramatically lower patients’ out-of-pocket costs.”

Bloomberg, April 6, 2017

America's Health Insurance Plans, the insurance industry's main lobbying group, answered with a strong push back: "Enough with the distractions. We need drug makers to be more transparent in their pricing, so people know what they are paying for."

Bloomberg, April 6, 2017

# Wyden Bill to Increase PBM Transparency

- Sen. Ron Wyden's (D-OR) bill would force pharmacy benefit managers to disclose the total amount in rebates and discounts they receive from manufacturers to get their drugs listed on formularies.
- The bill also aims to increase transparency over the practice known as "spread pricing," in which the drug price a PBM charges an insurer sponsoring a health plan is much greater than what the PBM pays a pharmacy, without the insurers' knowledge.

## Wyden Bill to Increase PBM Transparency...

- The bill would have HHS establish a minimum percentage amount of a rebate or discount that would go to “patient utilization under the plan.”
- It would reform Medicare Part D so seniors would pay a percentage of the negotiated drug price, not the manufacturer’s more expensive listed price.
- Wyden is the ranking Democrat on the Senate Finance Committee but has no Republican co-sponsors yet.

Are Accountable Care Organizations (ACOs) the  
Answer to Controlling Health Care Costs?

# ACO Results in Oregon and Colorado

The Journal of the American Medical Association

February 2017

- Examined ACA results in Colorado and Oregon that launched in 2011 and 2012.
- Analyzed data from July 2010 to December 2014 for 452,371 in Oregon and 350,511 in Colorado.
- Oregon's aggressive ACO covered 90% of the Medicaid population where providers took upside and downside risk under a global budget.
- Colorado had no downside or upside risk, kept the fee-for-service system, and used collaborative organizations to coordinate care



## ACO Results in Oregon and Colorado...

- Oregon's Medicaid ACO program decreased total standardized per member per month spending by \$6 from 2013 to 2014, but the changes in Oregon compared to Colorado revealed only a \$2 difference in cost reductions over the same period.
- While healthcare spending was not significantly different across the two initiatives, Oregon's more comprehensive Medicaid ACO program did improve care quality slightly better than Colorado's program.

New HHS Secretary Price is not completely sold on the final rule for implementing the next steps in value based care—the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), although he voted for the legislation.

Following the release of the final rule in October 2016, Price said the new payment system, “deserves careful scrutiny in the light of serious concerns.”

Among the GOP doctor’s caucus, he said, “We are deeply concerned about how this rule could affect the patient-doctor relationship, and I look forward to carefully reviewing it in the coming days to determine whether the [Obama] Administration has addressed those concerns and put the interests of patients first.”

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