Lehigh Valley Business Coalition on Healthcare

The American Healthcare System Under the Trump Administration

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Robert Laszewski

Health Policy and Strategy Associates, LLC

Washington, DC

Republicans Have Failed to Repeal and Replace Obamacare and Implement a More Market based System

The Health Insurance and Health Care Provider Markets are Remarkably Stable, Growing, and Profitable

But the American Health Care System Continues to Cost Far Too Much and Escalate at Unsustainable Rates

Is the Market On the Cusp of Major Strategic Change?

- “American healthcare has reached a tipping point. Look no further for proof than the insiders and outsiders who are linking up to disrupt the long-stagnant, cost-ridden industry that's eating up nearly a fifth of the nation's gross domestic product.” *Modern HealthCare* February 3, 2018
- Amazon is partnering with JPMorgan Chase and Warren Buffett's Berkshire Hathaway to directly take on employer healthcare spending.
- CVS Health and Aetna are combining, as well as CIGNA and Express Scripts, to offer cheaper, more convenient access to care and services.
- Apple is working with hospitals and technology vendors to “put medical records in the palms of patients' hands.”
- Recently major health systems, Intermountain, Ascension, SSM, and Trinity, recently stepped into pharma territory with plans to launch a not-for-profit generic-drug company.

Is the Market On the Cusp of Major Strategic Change?

- UnitedHealth and Walgreens are testing the expansion of urgent care clinics staffed and equipped to handle a broader range of services.
- Transparency in pricing is 2018's health care buzzword.
- UnitedHealth announced that beginning in 2019 drug rebates will be applied as discounts at point of sale for the 7 million people the plan covers for those in fully insured commercial plans. Aetna followed suit.
- United's self-insured and PBM customers will continue to have this option—Part D plans will not.
- But only around 4% of employers do it directly give members the value of the rebate, while 68% use the money more generally to offset their spending on drugs, according to a survey of employers by the Pharmacy Benefit Management Institute.
- CVS Health Corp. said clients covering around 12 million people, out of the 94 million whose drug benefits the company manages, pass on the rebates to individuals taking the drugs.

New Provider-Sponsored Health Plans: Joint Ventures Are Now the Preferred Strategy

Baumgarten, Hempstead, *Health Affairs* February 2018

- Aetna is the most active health insurer for joint venture health plans forming five of the 11 new joint ventures.
- Providers appear to be partnering with carriers because they don't know how to run an insurance company.
- "Most newly formed provider-sponsored health plans we studied last year could not deliver on the value proposition of providing higher-quality health care in ways that saved money, making it possible to offer insurance products that are competitively priced."
- By partnering with a carrier, less capital is required from the health system to meet state reserve requirements, less capital is needed to rent or build the administrative infrastructure of the insurance company, and the new company can bring products to market faster.

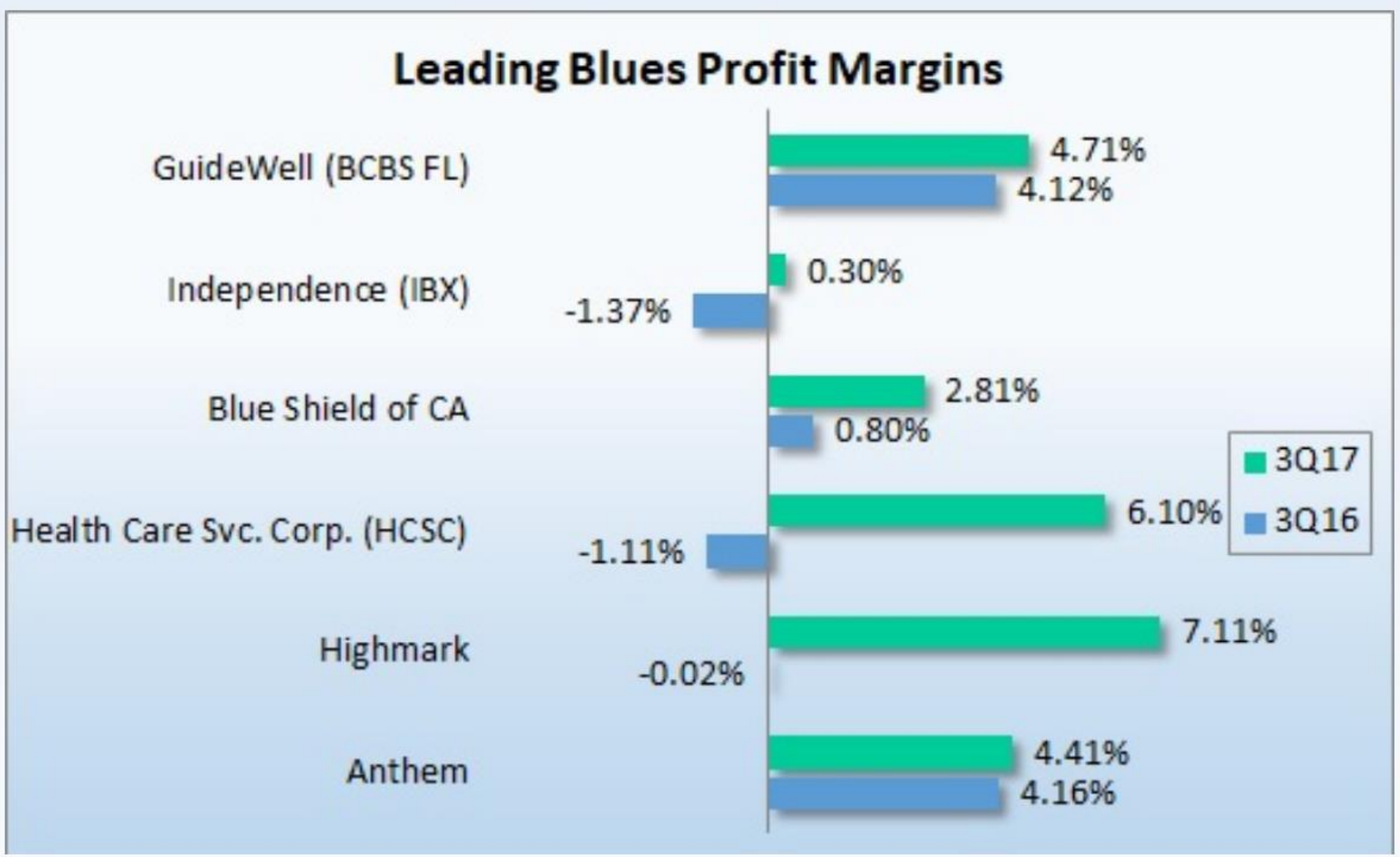
Joint Ventures Are Now the Preferred Strategy…

- Partnering with a provider system may offer an insurer a chance to grow its local market share because consumers generally have a more favorable view of their medical providers than of their insurance company.
- Even though a new health plan may not be profitable in its first years, through management service agreements, the insurer can be paid for the plan management services it provides to the joint venture insurer, including underwriting, enrollment, accounting, actuarial, premium billing, and collection.
- For example, Innovation Health disclosed that Aetna Health Management was paid $65 million in 2016 to provide a range of administrative services to the Innovation Health Insurance Company and Innovation Health Plan.

Enrollment and Financial Results for Joint Ventures, First Half of 2017

Health plan name	December 2016 enrollment	June 2017 enrollment	Change	2017 revenues (6 months)	2017 net income (6 months)	Margin
Aspirus Arise Health Plan of Wisconsin, Inc.	0	11,536	NA	32,744,201	-347,549	-1.1%
Care N' Care Insurance Company of North Carolina (dba HealthTeam Advantage)	6,738	12,048	78.8%	50,377,500	-10,619,857	-21.1%
HealthPartners UnityPoint Health	0	834	NA	7,067,948	-1,427,634	-20.2%
Innovation Health Insurance/Innovation Health Plan	97,722	110,178	12.7%	227,033,608	-34,742,368	-15.3%
Tufts Health Freedom Insurance Company	3,250	7,660	135.7%	18,399,451	-21,431	-0.1%
Wisconsin Collaborative Insurance Company[a]				0	-1,520,487	0

Health Insurance Company Margins Improving



Source: Health Coverage Portal™, Mark Farrah Associates, presenting data from NAIC & CA DMHC

Medicare Advantage a Big Profit Driver for Insurers

Medicare Advantage (MA) Success

- While CMS and the Medicare actuary initially projected that the ACA's payment and rebate reductions would cut MA enrollment dramatically, the opposite occurred.
- MA plans enrolled 11.1 million beneficiaries when the ACA was enacted in 2010 and enrollment grew to 17.6 million by 2016, or 31% of all Medicare beneficiaries.
- Despite payment reductions and linking payment/rebates to quality through the 5-star rating system, Medicare payments to MA plans are projected to increase by the Medicare Trustees from an estimated $188.3 billion in 2016 to $386.7 billion in 2025

Medicare Advantage Market: “Stable Yet Dynamic”

- “Based on trends of insurers entering and exiting the program, the MA market could best be described as “stable yet dynamic”—roughly the same numbers of plans enter/exit the program each year. For example, 87 % of the health plans available in 2015 were also available in 2016—*Health Affairs*, January 2018.
- A recent report published in December 2017 in *Health Affairs* found that in 2010, the year Obamacare was signed into law, the big five publicly traded insurers had revenue of $92.5 billion from operating Medicare and Medicaid plans.
- By 2016, Medicare and Medicaid revenue had grown by 230% to $213.1 billion at UnitedHealth, Aetna, Anthem, CIGNA and Humana—59 percent of their total revenue.

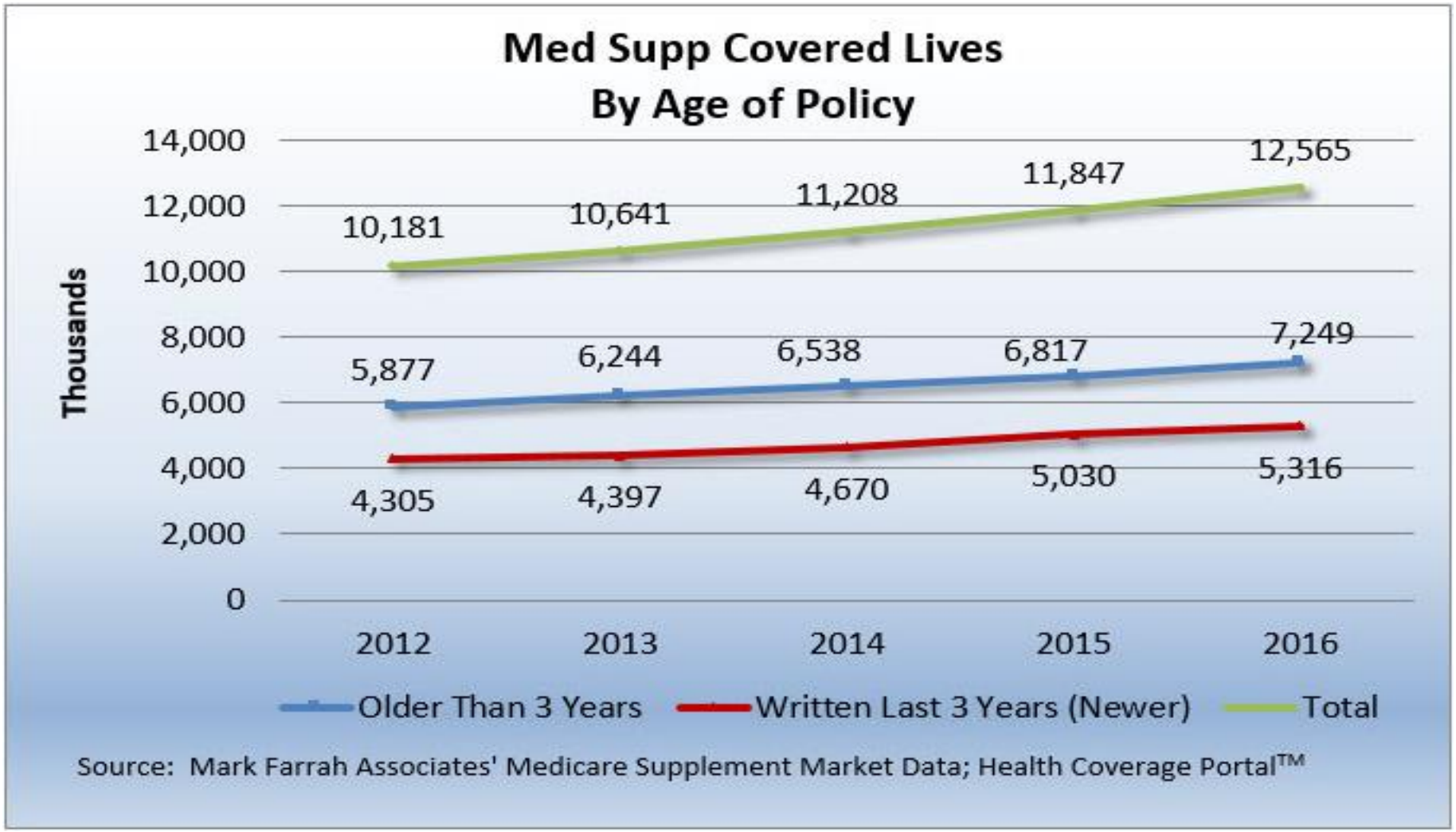
Medicare Advantage (MA) enrollment continues to grow.

As of February 1, 2018, total MA enrollment was 21,079,661, a net gain of 1,486,320 members year-over –year (+7.6%).

According to CMS, 34% of the 61 million people eligible for Medicare were enrolled in Medicare Advantage.

Medicare Supplement Also Continues to Show Robust Growth

Medicare Supplement Covered Lives Grew by 6% From 2015 to 2016



Managed Care Dominates the Medicaid Program

Medicaid Managed Care Dominates the Medicaid Program

Mark Farrah Associates, November 2017

- As of October 2017, 32 states including the District of Columbia implemented ACA Medicaid expansion.
- As of July 1, 2017, twenty-nine of the 39 states with comprehensive risk-based MCOs reported 75 percent or more of their Medicaid beneficiaries were enrolled in MCOs.
- “In the wake of failed Republican attempts to repeal or replace the current health care law, more states have begun to consider expanding their Medicaid programs.
- In addition, more states are taking advantage of section 1115 waivers that apply to ACA Medicaid expansion for FY2018.

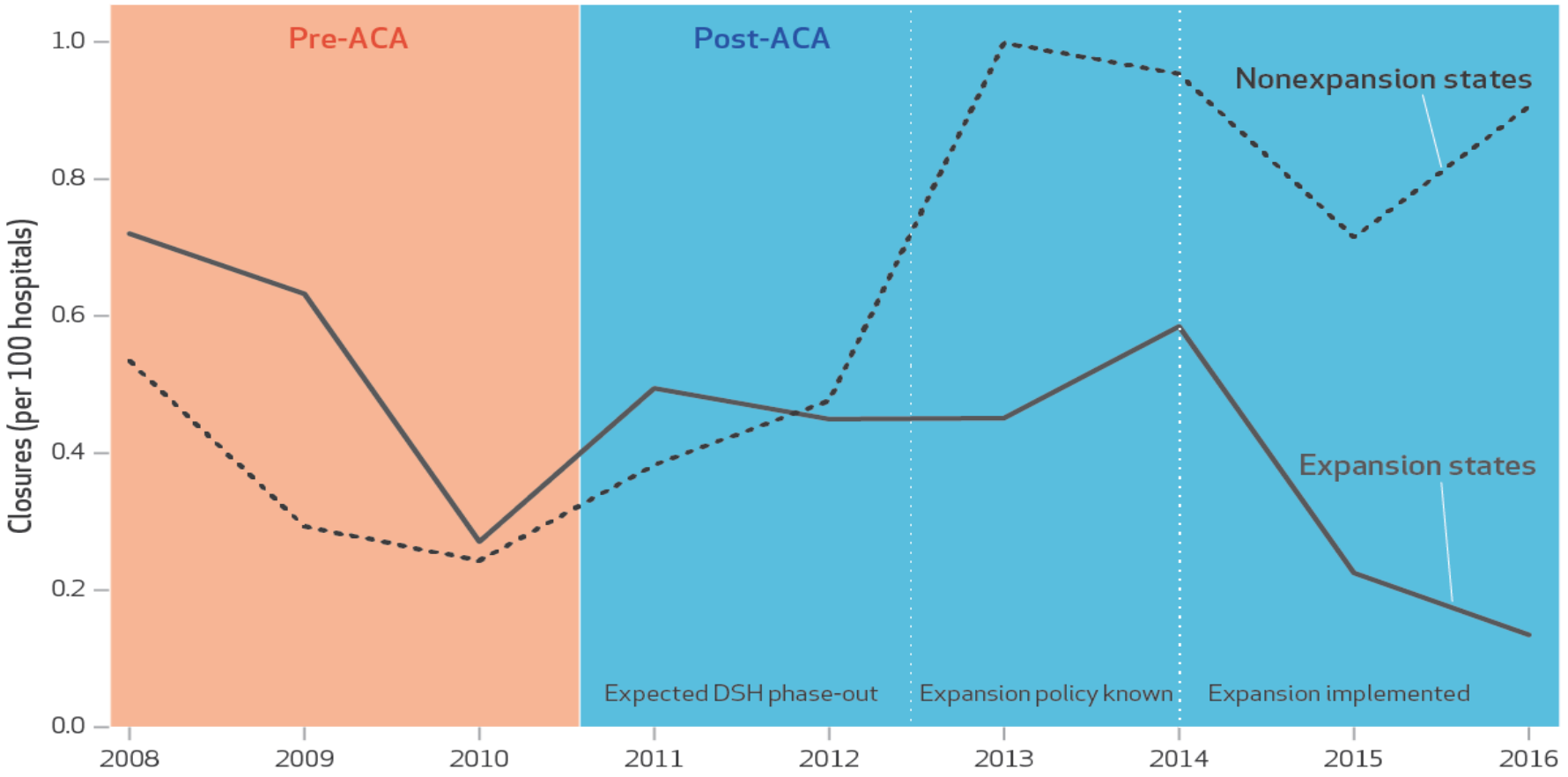
48 Million Lives Are Now Covered Under Managed Medicaid

Top Five Control 45% of Market

Leading Medicaid Managed Care companies				
Membership Trend				
Company	**2Q16**	**Market Share**	**2Q17**	**Market Share**
Centene	6,063,334	13%	5,990,644	12%
Anthem	5,046,472	10%	5,156,737	11%
United	4,743,470	10%	5,118,552	11%
Molina	3,340,440	7%	3,374,077	7%
Wellcare	2,163,480	4%	2,375,666	5%
All Others	27,096,125	56%	26,624,598	55%
Total	**48,453,321**	**100%**	**48,640,274**	**100%**

Medicaid Expansion Good for Hospital Stability

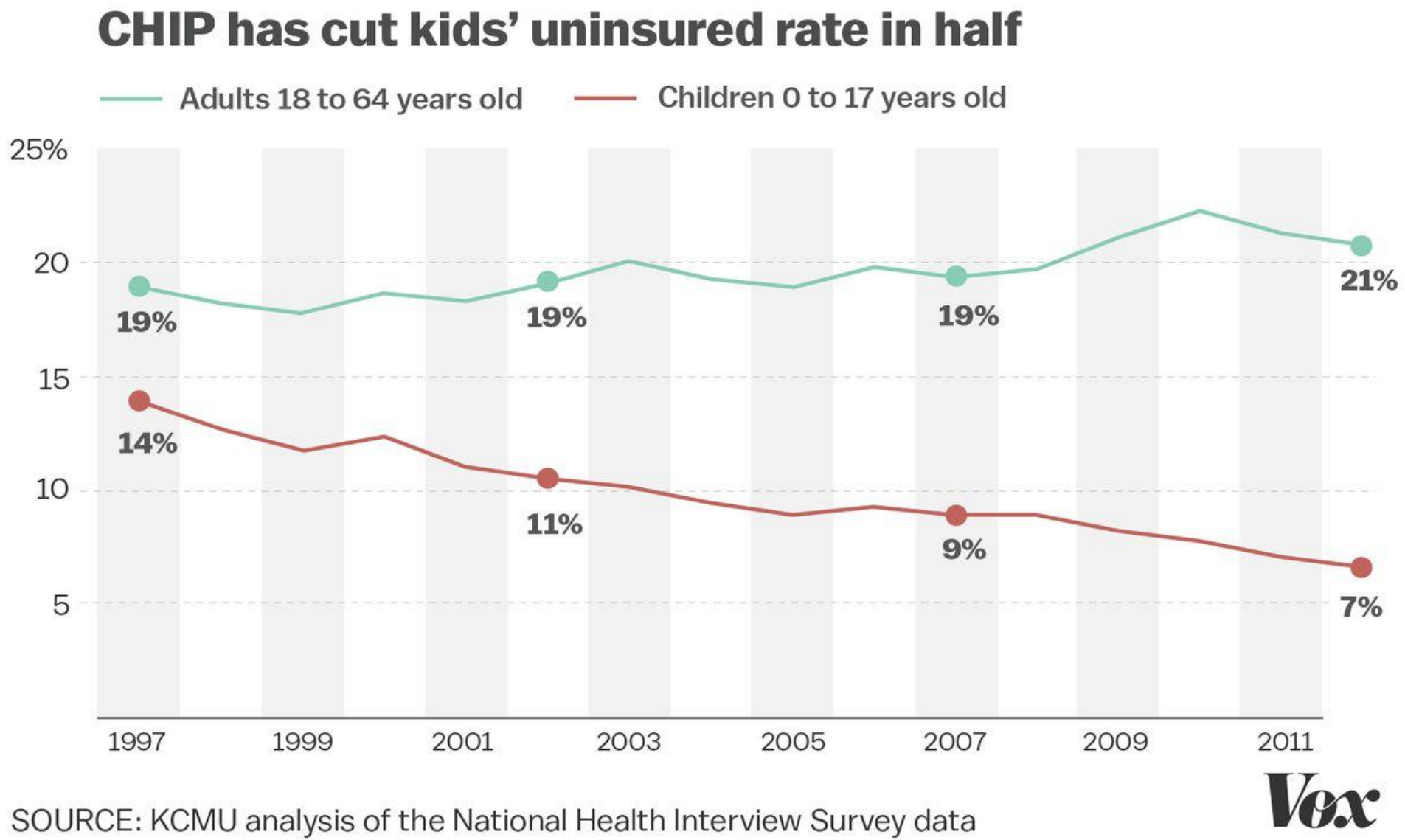
Unadjusted hospital closure rates by state Medicaid expansion status, 2008–16



Richard C. Lindrooth et al. Health Aff 2018; 37:1 111–120

Health Affairs

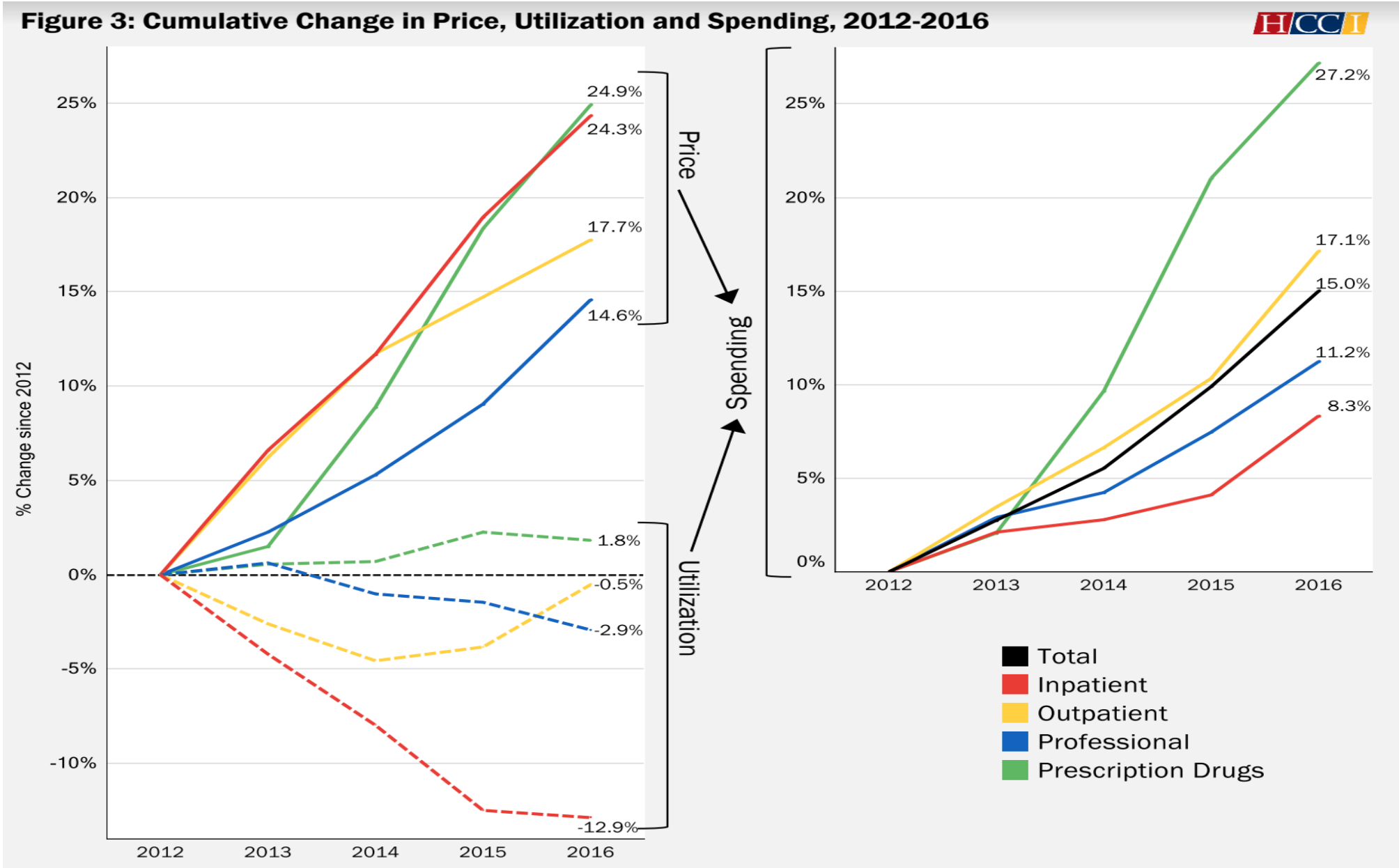
CHIP Has Been A Big Success



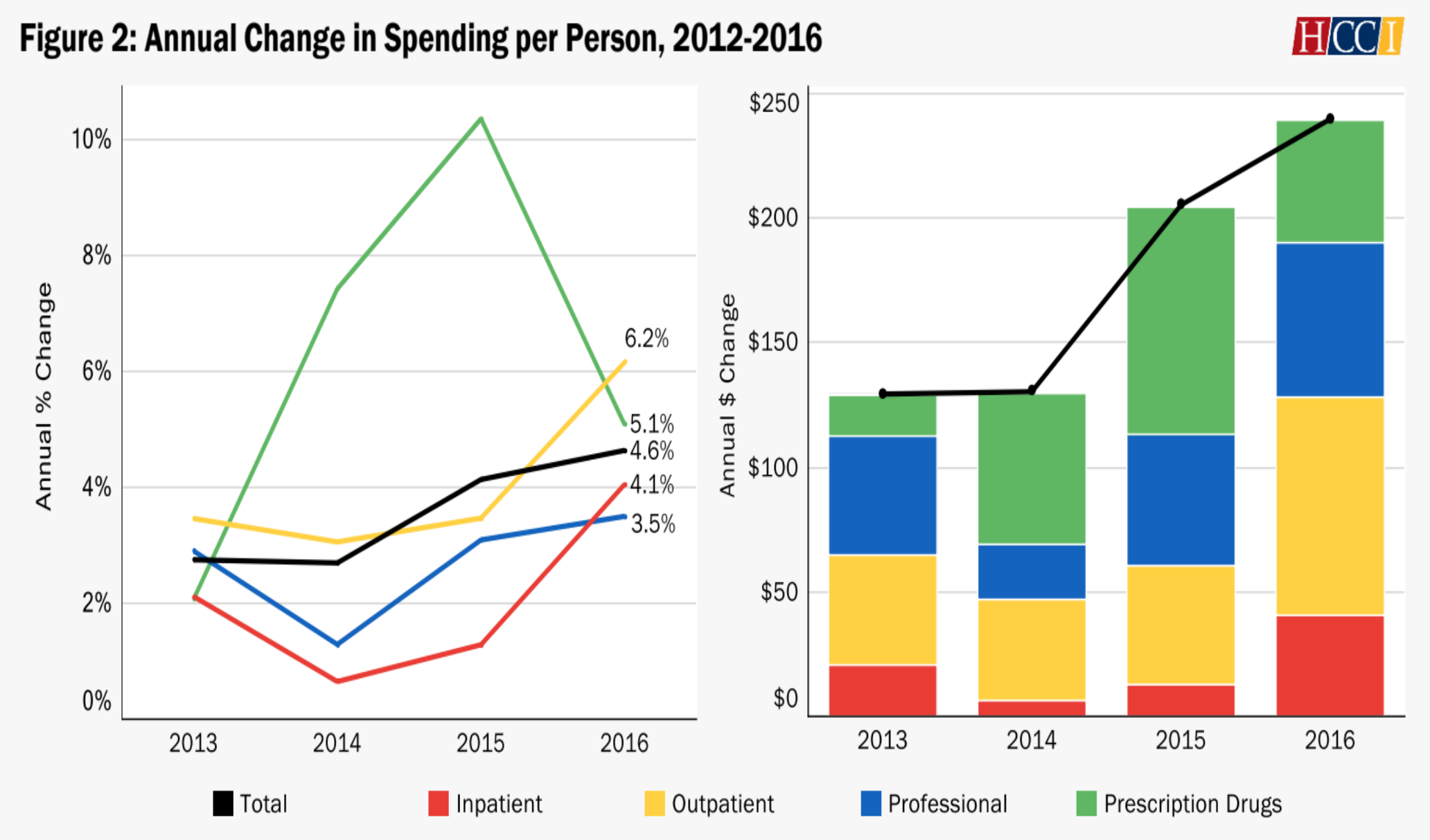
Bringing U.S Health Care Costs Under Control

It’s Still the Prices, Stupid!

Price, Not Utilization, Is the Big Driver



Outpatient Costs Taking Over the Lead Among Cost Drivers



Hospital Margins Strong But Under Pressure

- Profits at the more than 4,800 U.S. community hospitals continued their steady rise in 2017, hitting $76.1 billion, a 43% increase since 2011—AHA Hospital Statistics Report.
- Hospitals' overall operating margin was 7.7% in 2016, compared with 7.9% in 2015.
- Bad debt continues to grow, reaching $38.3 billion in large part due to the rise of high-deductible health plans.
- The Medicare Payment Advisory Commission projects that the Medicare margin will fall to negative 11 percent in 2018.
- Eighty-two rural hospitals across the country have closed since 2010 according to research from the NC Rural Health Research Program.

Medicare's Efforts to Move the System Away From Fee-For-Service and Toward Value-Based Care

HHS Secretary Azar's Health Care Cost Goals

- Azar outlined key ways he wants HHS to get at the problem of cost.
- By improving data-sharing among providers and patients,
- Getting generic drugs to market faster,
- Making prices more transparent for consumers,
- Driving change in the system through Medicare and Medicaid innovation to ensure Medicare's payment system rewards quality over quantity of tests and procedures, and
- Removing government barriers to change.
- He also continues to remind us that the overall goal is to repeal Obamacare

“Congress Should Replace Medicare’s Merit-Based Incentive Payment System (MIPS)”

Health Affairs, February 2018, Matthew Fieldler, Tim Gronniger, Paul B. Ginsburg, Kavita Patel, Margaret Darling

- “MIPS is unlikely to meaningfully improve the quality or efficiency of patient care. At the same time, MIPS will impose significant administrative burdens on both providers and the federal government.”
- “MIPS’s shortcomings are likely unavoidable in a system that seeks to measure overall quality and cost performance at the level of each individual clinician or practice and then adjust fee-for-service payment rates on that basis.”
- “Congress should eliminate MIPS and expand and improve incentives for advanced [upside and downside risk] APM [alternative payment model] participation.”

MedPAC Calls for an Alternative to the Merit-Based Incentive Payment System

- MedPAC is an independent legislative branch agency that advises Congress on the Medicare program.
- MedPAC recommended in its annual March Report to the Congress that Congress eliminate MIPS and instead adopt an alternative approach for promoting high-quality clinician care for beneficiaries in traditional Medicare.
- MedPAC believes that MIPS, as currently structured, will not achieve this goal because MIPS is premised on the assumption that Medicare can measure and pay for high quality at the level of the individual clinician, and that assumption leads to a fundamentally unworkable program.

The Health Care Market

- The health insurance markets stable with good growth and profitability in key lines.
- Provider profitability mixed but generally stable.
- Overall health care inflation modest but still relatively high compared to general inflation.
- The big driver is prices not utilization.
- Long-term fiscal unsustainability driven by entitlement costs and a burgeoning national debt.
- Then there is “Obamacare.”

The Obamacare Insurance Exchanges: The Political Tail Wagging the Health Care Market Dog?

- The Obamacare exchanges are not sustainable—the exchanges have enrolled less than 40% of the subsidy eligible, it has been particularly bad for those who do not get subsidies, and the Trump administration continues to make it worse.
- But Republicans have not been able to “repeal and replace” it.
- They have effectively left the problem for the Democrats when they return to power.
- The Democratic solution is to enact the “public option” and/or enable Medicare buy-in.
- The most liberal Democrats would enact a single-payer Canadian-style health insurance program.
- Government schemes may start with Obamacare but they will not end there.

The On-Exchange Enrollment Trend is Flat While the Off-Exchange Market is Melting

- As of March 2017, the individual insurance market totaled 17.6 million people.
- That was down from 20.2 million one year prior.
- This was a decrease of 2.6 million people, a 13 percent drop in the size of the overall individual health-insurance market.
- Exchange enrollment peaked at 12.7 million in 2016 and is down is down by 900,000 to 11.8 million since then.
- The Trump administration will allow small employer association health plans that will be exempt from Obamacare benefit mandates as well as individual short-term plans for up to 12 months that will exempt insurers from federal benefit mandates and guaranteed insurability protections.

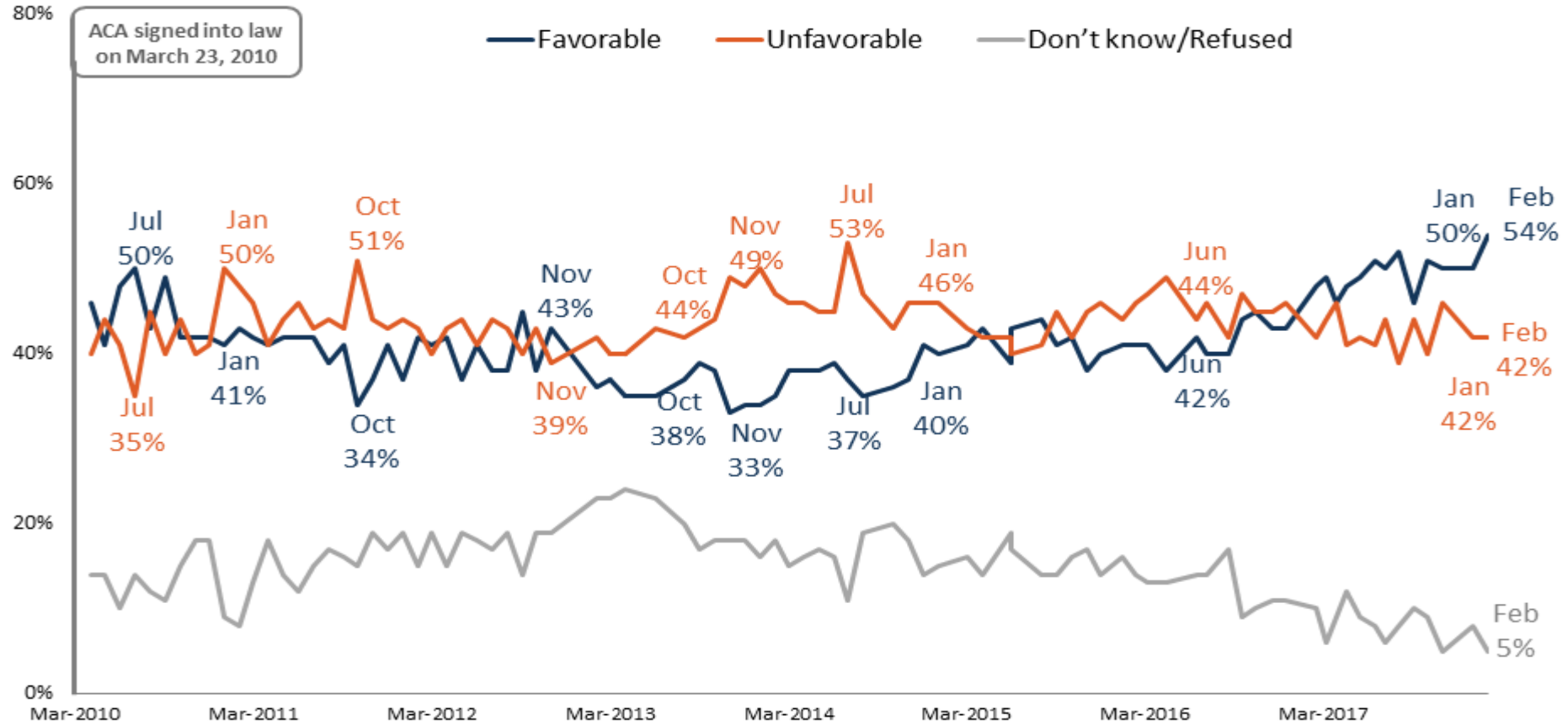
A Melting Obamacare Compliant Market…

- States that don't allow short-term policies, including Massachusetts, New York, New Jersey, Oregon, Vermont and Washington, would see more limited increases than other states driven by the alternative health plans attracting healthy lives out of the Obamacare pool.
- Iowa passes legislation to allow the Farm Bureau to offer plans exempt from Obamacare's underwriting prohibitions and benefit requirements.
- Wisconsin, Texas and 18 other states have filed a federal law suit arguing that the ACA is null and void because the individual mandate tax has been repealed—the U.S. Supreme Court earlier upheld the law ruling, "Without the tax penalty, the mandate that individuals purchase health insurance was an unconstitutional exercise of federal power." Texas Attorney General Ken Paxton argued the individual mandate is now unconstitutional because without its penalty it cannot be called a tax and that now necessarily invalidates the rest of the law.

Figure 2

More of the Public Hold a Favorable View of the ACA

As you may know a health reform bill was signed into law in 2010, known commonly as the Affordable Care Act or Obamacare. Given what you know about the health reform law, do you have a generally favorable or generally unfavorable opinion of it?



SOURCE: Kaiser Family Foundation Health Tracking Polls

THE HENRY J. KAISER FAMILY FOUNDATION

What the Democrats Will Propose When They Return to Power

- Warren Plan – Fix Obamacare by capping premium costs for everyone in the individual market at 8.5% of income using the Gold Plan as the standard.
- The Public Option – A Government-run health plan option in the individual Obamacare insurance exchanges.
- A Medicare buy-in option for age-55 and older Americans.
- A single-payer Canadian-style universal health insurance system.
- Medicare Extra.

Medicare Extra

The Center for American Progress

- It creates a Medicare-like program that would replace Obamacare, Medicaid, CHIP, Veterans care, TRICARE, the FEHBP, and even Medicare as well as giving employers the opportunity to buy into it for their employees by contributing 70% of the cost.
- Small employers would not be required to contribute toward their employee costs.
- States would essentially make their current Medicaid contributions to the new program. Non-expansion states would eventually pay the full freight.
- The new program would effectively use the Medicare fee schedule, provide zero or low deductibles, free preventive care, free chronic disease treatment, and free generic drugs.

Medicare Extra…

- “With the exception of employer-sponsored insurance, private insurance companies would be prohibited from duplication of Medicare Extra benefits, but they could offer complementary [presumably excess supplemental] benefits during an open enrollment period. Complementary insurance would be subject to a limitation on profits and banned from denying applicants, charging premiums based on age or health status, excluding pre-existing conditions, or paying fees to brokers.”
- It would allow the health insurance industry to continue via a Medicare Advantage like relationship to be called Medicare Choice.

Medicare Extra…

- Medicare Choice would be available to virtually everyone. However, private insurers participating would be limited to 95% of Medicare Extra premium and the program would be subject to competitive bidding.
- Current Medicare beneficiaries could stay in traditional Medicare or move to the new program. Medicare Supplement would eventually disappear.
- Medicaid managed care would be gone, the individual and small group market would be folded into this and only the large employer market would have the option to continue as it is.
- Aside from employer customers who continued to operate their programs, insurers still participating would serve these markets by providing the Medicare Choice alternative to their former customers.
- No cost estimates yet.

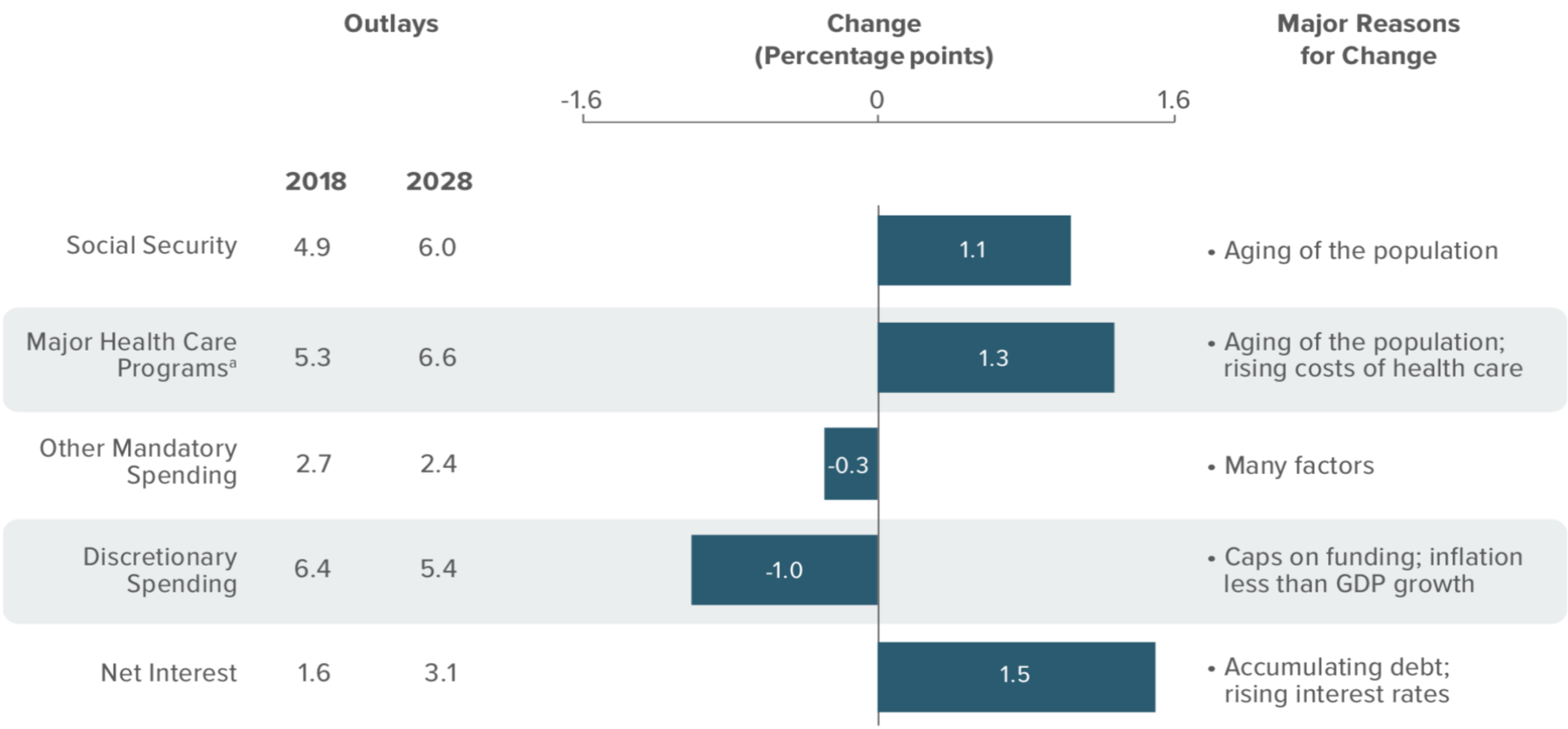
Table 1. Comparison of Mean Commercial and Medicare FFS Payment Rates for All Stays, Medical Stays, and Surgical Stays, 2013

	All MS-DRGs	Medical MS-DRGs	Surgical MS-DRGs
Commercial Price	$21,433	$13,469	$30,880
Medicare FFS Base Price Plus IME, DSH, and Outliers	$11,354	$7,117	$16,454
Ratio of Commercial to Medicare FFS Price	1.89	1.89	1.88
Number of Stays in Analysis	620,922	336,899	284,023
Number of MSAs in Analysis	297	296	297

The CBO's Long-Term Budget Outlook

Major Changes in Projected Outlays From 2018 to 2028

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

GDP = gross domestic product.

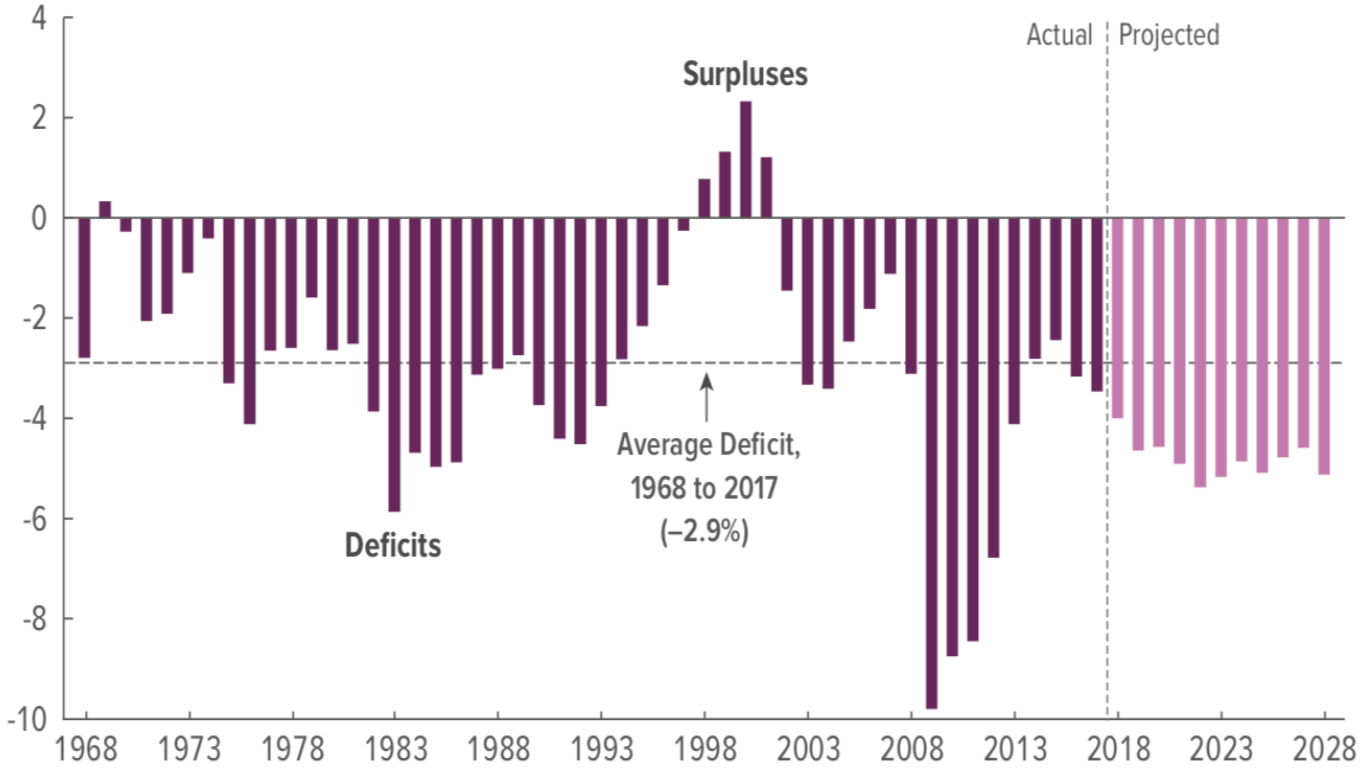
Outlays as a percentage of GDP have been adjusted to exclude the effects of timing shifts.

a. Consists of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

Deficits Into the Future

Total Deficits or Surpluses

Percentage of Gross Domestic Product



Deficits as a percentage of gross domestic product are projected to increase over the next few years and then largely stabilize. They exceed their 50-year average throughout the 2018–2028 period.

Source: Congressional Budget Office.

Getting Obamacare, or a Workable Republican Replacement, on Track Will Be Essential for Republicans and Conservatives To Be Able to Avoid the Likes of Medicare Extra