LVBCH 35th Annual Conference

2015: The Health Care Political and Market Landscape

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Lots Going On

- King v. Burwell – The latest Court challenge to Obamacare.
- The Affordable Care Act after two open enrollments.
- The Republican alternative to Obamacare.
- The marketplace—private exchanges, health care inflation, and integrated systems of care.
- The Medicare doc fix—a game changer?
- The continuing battle of the budget.

King v. Burwell

The Oral Arguments

- Questioning largely spit along predictable ideological lines with Roberts very quiet.
- Kennedy raised a curve-ball question: If the plaintiffs succeed wouldn't a requirement to build an exchange as the only way to get subsidies and avoid an insurance market meltdown be as onerous as requiring states to take the Medicaid expansion?
- Conservative Justice Alito asked if the Court could find for the plaintiffs but allow for a delay so the states could respond.
- Justice Ginsburg questioned the legal standing of the plaintiffs.
- The plaintiff's attorney said there was "not a scintilla" of evidence state insurance markets would go into a death spiral if subsidies weren't available for residents.

What Would Carriers Do?

- Subsidies would end on August 1 unless the Court delayed the order.
- Likely no help for enrollees or carriers before January 1, 2016.
- 2016 rates due before decision but carrier exchange contracts will be signed after decision.
- "3Rs" Obamacare reinsurance program applies in 2015 and 2016.
- Immediately canceling business is problematic given HIPAA and state notification rules.
- Carriers would likely grunt it out for the rest of 2015 until they saw what each state would be able to do for 2016.
- Off exchange market not subsidy reliant but would be subject to underwriting reform.

What Would Congress Do?

- Hatch, Barrasso, Alexander Republican Senate Plan: "We would provide financial assistance to help Americans keep the coverage they picked for a transitional period."
- The Senators would also "give the states flexibility to create better more competitive health insurance markets offering more options and choices."
- Republican Senator Sasse (NE) has suggested an 18-month Cobra-like extension.
- Wisconsin Senator Ron Johnson's plan would only extend the subsidies for people now on Obamacare.
- But with Obama in office until January 2017 and the Republicans having less than 60-Senate votes, it is hard to see any conditional solution occurring in the current Congress.

Can a State Simply Contract With the Feds to Run Their Exchange?

For a State to Establish Its Own Exchange It Must:

(Tim Jost, Health Affairs Blog, July 2014)

- Enact authorizing legislation or a have a properly issued executive order establishing the exchange;
- If the exchange is operated by an independent agency or non-profit, establish a properly constituted governing board;
- Have in place exchange governing principles;
- Fulfill all exchange functions, either itself or by contract with a private entity or under arrangement with HHS
- Provide funding for the exchange, which must be self-sufficient for 2015.
- It is not enough for a state simply to set up a website. It is also not sufficient if a state Department of Insurance operates some functions in a partnership relationship with a federal exchange

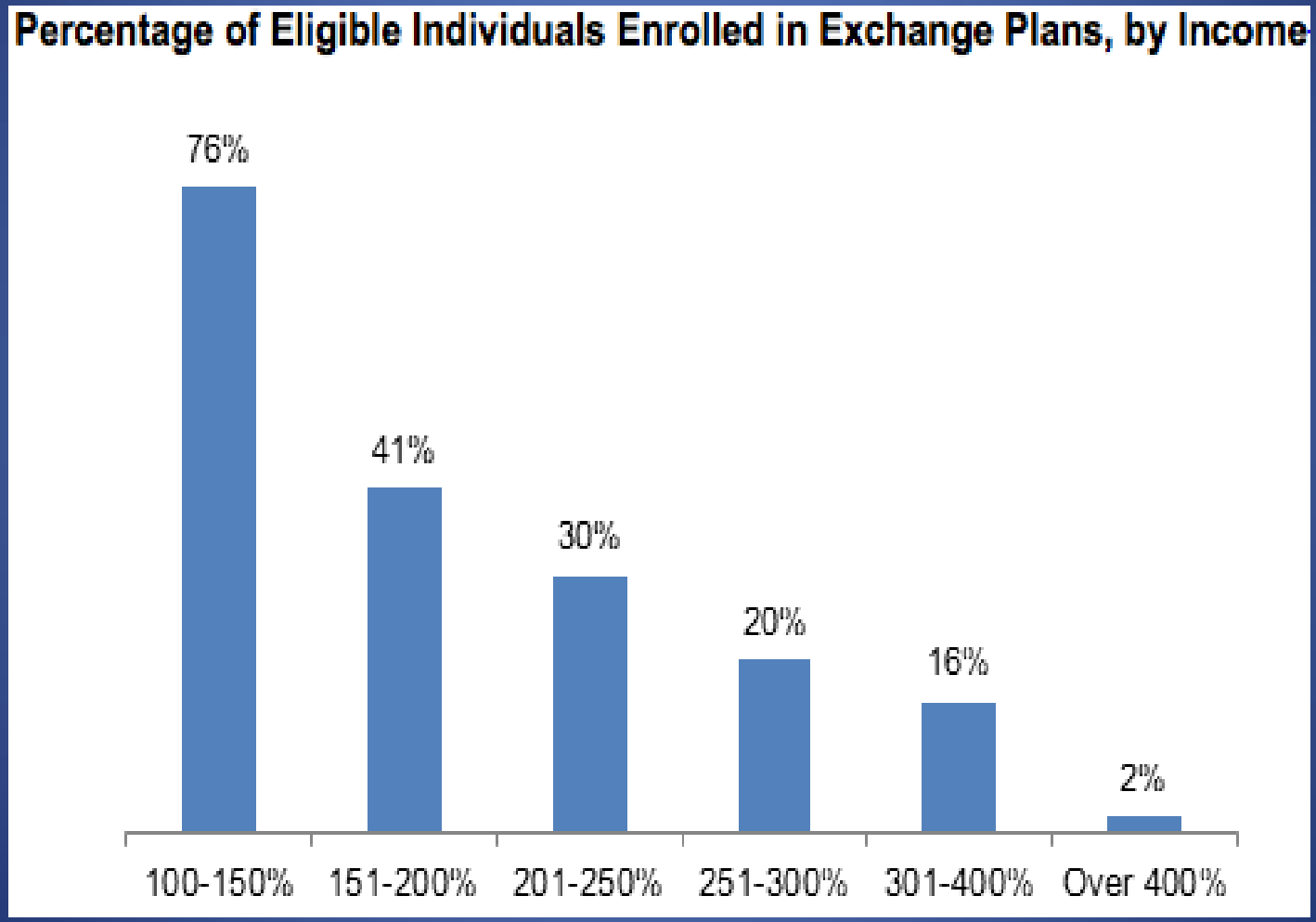
Obamacare

2015 Obamacare Enrollment

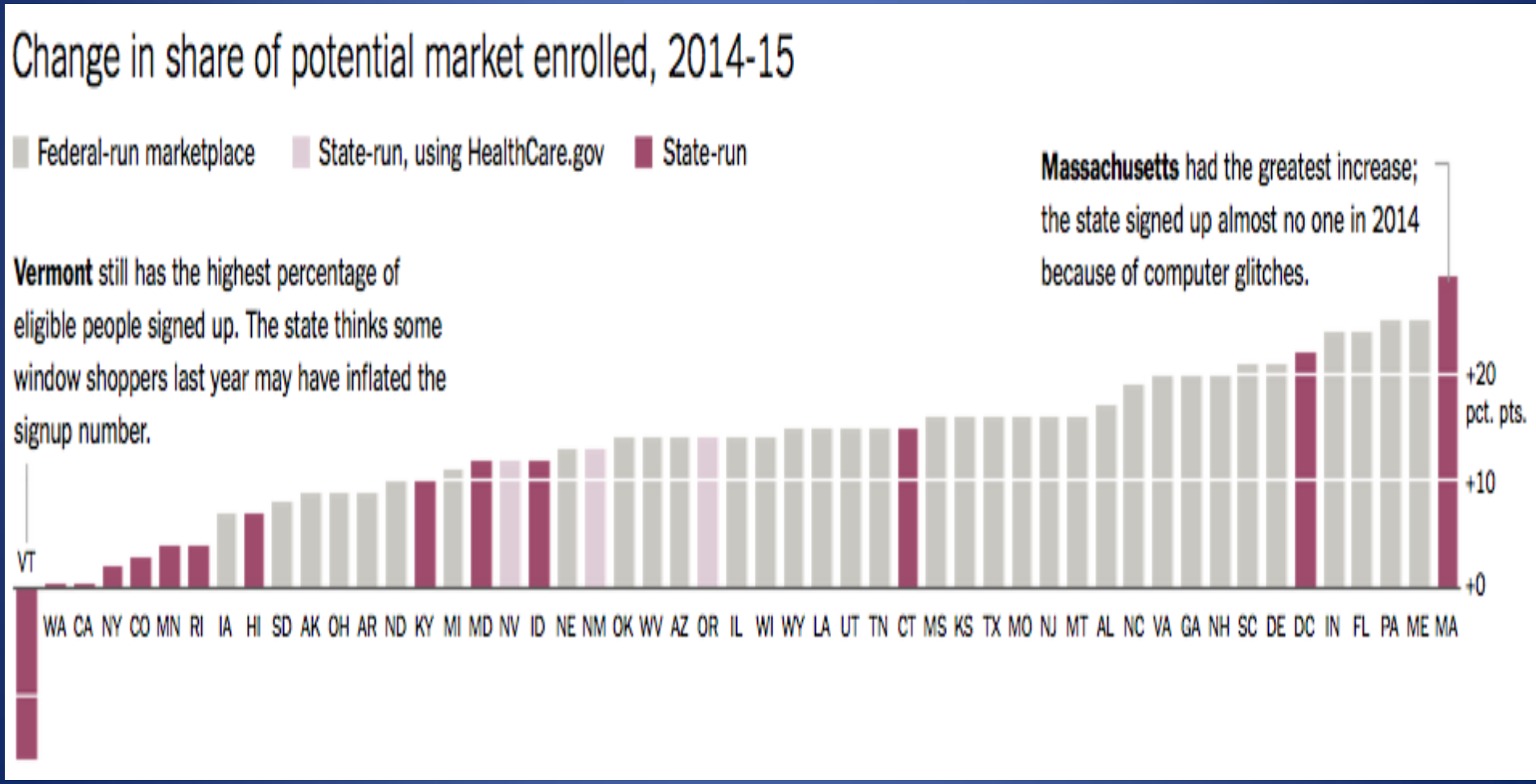
- 11.7 million enrolled in the state and federal exchanges through February 22.
- This total includes people who will not pay and any duplicate enrollments—real number likely closer to 10.5 million.
- That blows away the administration's target of 9.1 million.
- But to get to 75% of all subsidy eligible people signing up, the state and federal exchanges would need about 15 million by the end of 2016 when the "3Rs" expire.

Plan Selections by Income

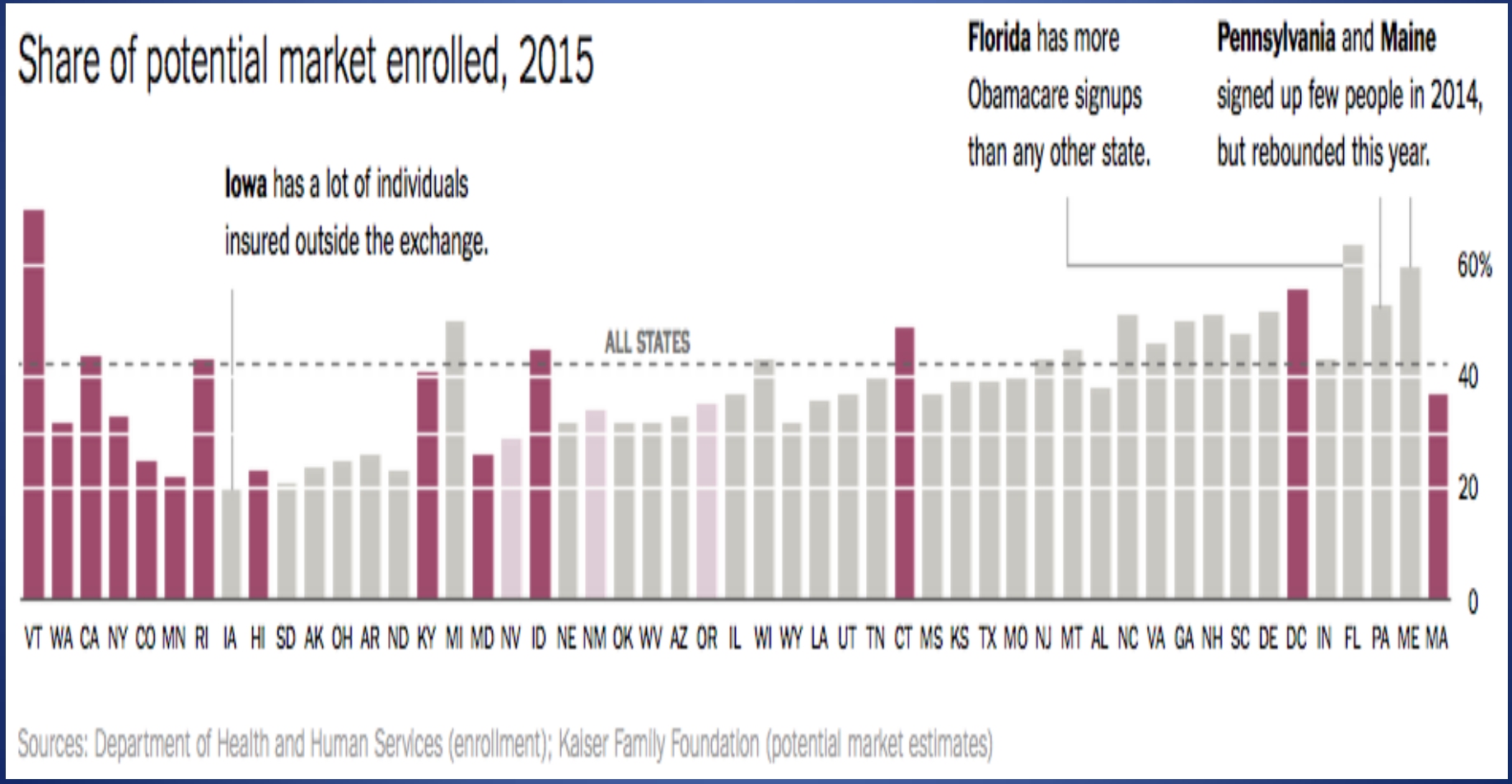
Source: Avalere from CMS Report



Enrollment Running Out of Gas?



Most Eligible People Are Still Not Signing Up



Obamacare in the Marketplace

Obamacare Had Almost No Impact Toward Increasing Coverage in the Employer Market

- A survey by Mercer of 600 employers conducted in February 2015 at the end of the traditional employer open-enrollment period.
- While there has been a 1.6% increase in the number of employees enrolled there was a 2.2% increase in the size of the workforce.
- The average percentage of employees eligible for coverage rose from 87% to 88%.
- But the average percentage of employees who enrolled dropped from 84% to 83%.

Obamacare First Year Profitability?

Citi Research Analysis December 2014

Sample 2014 MLRs Through 3Q 2014

Health Plan	2014 Enrollment	MLR
HealthCare Service Corp	1,648368	99.8%
Golden Rule	844,803	75.9%
Aetna	353,344	81.2%
Blue Shield of CA	182,925	84.8%
United Health CT	20,274	110.8%
BCBS FL	523,465	92.0%
Humana Employers Health	286,643	101.8%
Humana WI	396,002	87.9%
Kentucky Health Co-op	56,734	116.1%
Coventry Health	233,257	99.8%

A Republican Alternative:

The Hatch, Upton, Burr Plan

"The Patient Choice, Affordability, Responsibility, and Empowerment Act"

- A full repeal and replacement of Obamacare
- No individual or employer mandate.
- No lifetime limits, coverage for children to age-26, and guaranteed renewability.
- Age rating would expand from the current 3:1 to 5:1.
- Guaranteed insurability only if the consumer remains continuously insured for 18-months.
- States would be allowed to use default enrollments to increase participation.

The Hatch, Upton, Burr Plan…

- Encourage states to develop high risk pools for those who lost guaranteed insurability.
- Eliminate health plan benefit mandates thereby making plans more affordable.
- Tax credits by age but only for those up to 300% of poverty. Here are the tax credits available for those making up to 200% of poverty:

Age	Individual	Family
18-34	$1,970	$4,290
35-49	$3,190	$8,330
50-64	$4,690	$11,110

The Hatch, Upton, Burr Plan…

- Eliminate the state and federal Obamacare insurance exchanges.
- Carriers could offer insurance across state lines.
- Cap the individual exclusion for employer-provided health insurance at $12,000 for a single person and $32,000 for a family (indexed at CPI+1%). The Obamacare “Cadillac” tax threshold is $10,220/$27,500 starting in 2018.
- Medical Malpractice reform that would cap damages and encourage state experimentation with alternative dispute resolution systems.

The Hatch, Upton, Burr Plan…

- Repealing the Medicaid expansion and providing the former funding levels for pregnant women, low-income children, and low-income families in the form of a "capped allotment" to the states which would be indexed at CPI+1%.
- Making mainstream commercial plans available to those who would lose their Obamacare Medicaid benefits using the standard tax credit subsidies.
- For example, a family of four making $30,313 a year (125% of poverty) with the parents age-34 would receive $4,290 in a tax credit.

Where’s the Market Going?

Continued Growth in Private Exchanges

- Mercer announced its private exchange enrollment has increased fivefold in the past year—to 1 million lives.
- But this total includes their Medicare exchange program for retirees.
- Mercer reports they are up to 247 companies compared to 52 in 2014.
- Aon reports their 2015 private exchange business will increase to 33 employers with 850,000 lives—up from 18 employers and 600,000 covered lives.
- Aon will also have 54 employers and 350,000 retirees in its Medicare program—up from 41 employers in 2014.

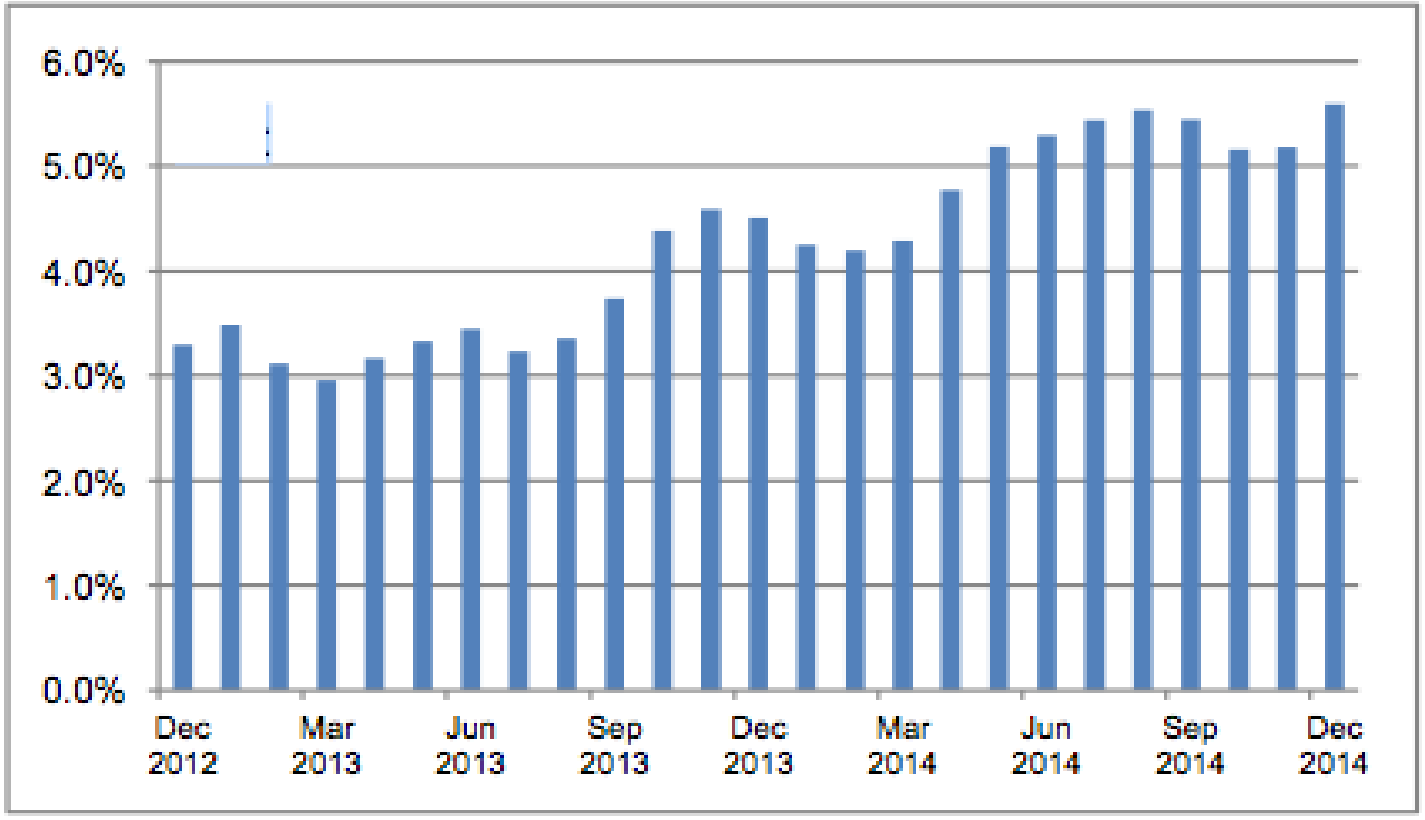
Private Exchanges…

- But Reuter's interviews with more than a dozen industry executives failed to turn up any major US company moving to a private exchange in 2015.
- CEO of National Business Group on Health: "We have a lot of wait and see going on with large employers."
- Aon Hewitt said in October it would lose money on its private exchange business after previously saying it would be profitable.
- Darden benefits manager: "We have over three years of seeing rates, and they have been dramatically and consistently less."

Health Care Costs Picking Up Again?

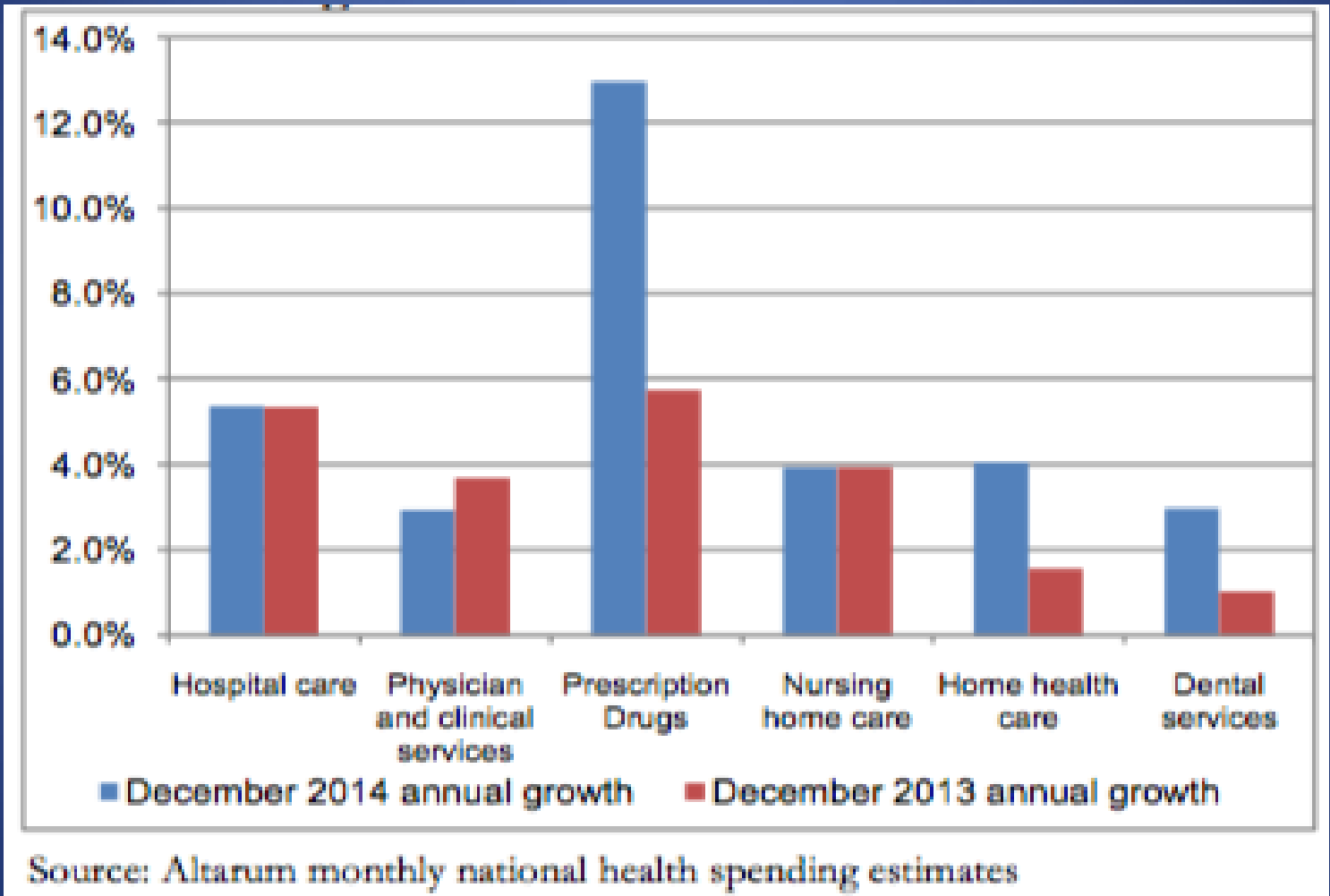
- Data from the Altarum Institute using *preliminary* Bureau of Economic Analysis and CMS National Expenditure Data.
- After five years of relatively slow health care cost growth costs appear to be trending upward.
- National health spending in December 2014 was 5.6% higher than health spending in December 2013.
- The December gross domestic product (GDP) growth over a 12- month period was 3.8%.
- Spending in December, year over year, increased in all major categories. Prescription drugs grew the fastest by far, by 13.0%.

Year-Over Year Growth in Health Spending



Source: Altarum monthly national health spending estimates.
Note: Compares a given month's health spending with that of the same month from the previous year.

Health Spending Year-Over-Year Growth for Selected Categories



Source: Altarum monthly national health spending estimates

Are Accountable Care Organizations the Answer to Controlling Costs and Improving Quality?

MedPac Findings on Medicare ACOs

- There are currently 343 Shared Savings and Pioneer ACOs.
- MedPac analyzed data from 114 ACOs starting in 2012.
- MedPac found that aggregate savings for all ACOs analyzed were 0.3%.
- For ACOs with at least 10,000 seniors covered, MedPac found that 45% of the ACOs had savings in the +/- 2% range.
- 30% of ACOs with less than 10,000 beneficiaries were in the +/- 2% range.

MedPac Analysis of ACO Savings…

- Most of the savings were in historically high cost areas—no statistically significant savings for ACOs in areas with historically low service use.
- With respect to 32 Pioneer ACOs which started in January 2012, 13 achieved some savings, two had a loss, and 17 are below the threshold for sharing savings but not at risk for losses.
- Nine of these 32 Pioneers withdrew from the program in July 2013.
- Looking at three Pioneer markets, MedPac found uncertainty about financial benchmarks was a problem and reporting was "burdensome and expensive."

Why the Poor ACO Performance Early in the Program

- These ACOs are in the early years of significant change.
- The early years see investments in infrastructure and new care models that participants are still learning to use.
- The ACO business model is far different than traditional business models.
- The ACOs that did generate savings were more often in markets long seen as having the most variation in spending and over-capitalized health care delivery markets—Texas, Florida, New York, and New Jersey.

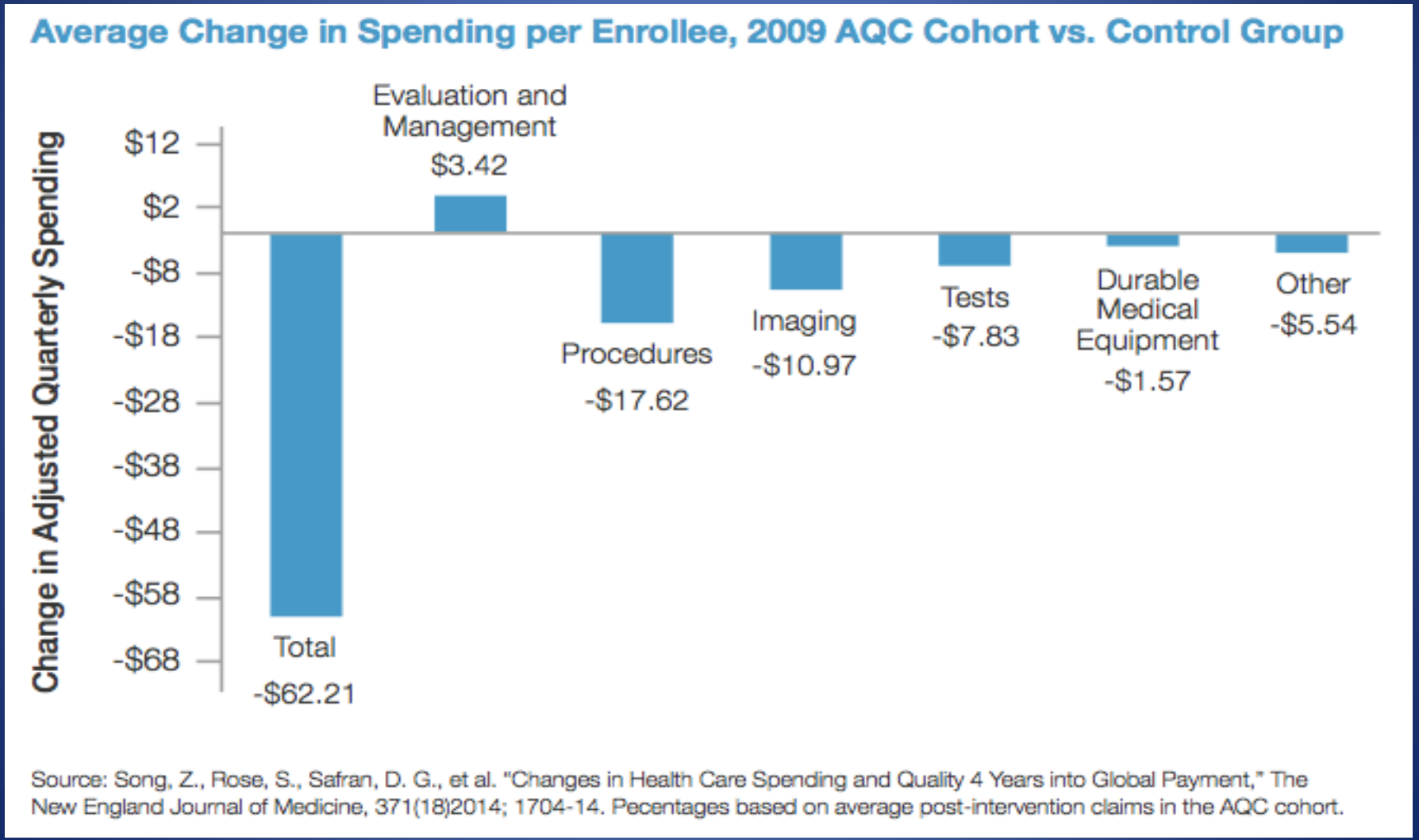
An Accountable Care Organization That Appears to Be Working:

Results From Blue Cross of Massachusetts' Alternative Quality Contract Program

Blue Cross of Mass Alternative Quality Contract (AQC) Results

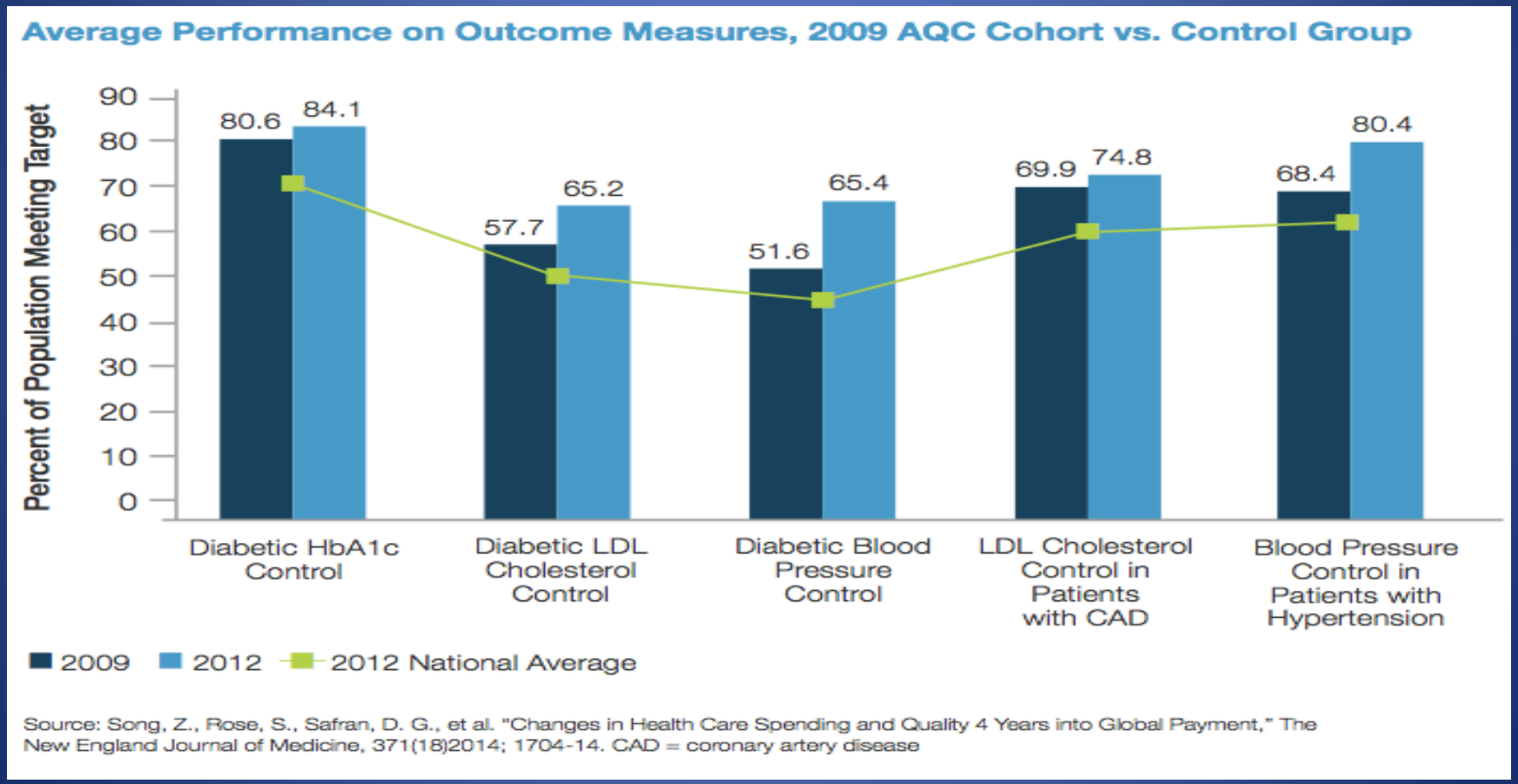
- Study published in the NEJM reports impressive four-year results.
- Compared Blue Cross members with a primary care physician in an AQC with a control group of commercially insured members in 8 northeastern states.
- Introduced in 2008, the AQC now includes 85% of the physicians and hospitals in the Blue Cross HMO network.
- Compared with similar populations “AQC enrollees had lower spending growth and greater quality improvements after four years.”

The AQC Program Achieved a 10% Overall Reduction in Costs by the Fourth Year



Source: Song, Z., Rose, S., Safran, D. G., et al. "Changes in Health Care Spending and Quality 4 Years into Global Payment," The New England Journal of Medicine, 371(18)2014; 1704-14. Pecentages based on average post-intervention claims in the AQC cohort.

The AQC Program Lowered Costs "With No Evidence That Reduced Utilization Compromises Care"



Source: Song, Z., Rose, S., Safran, D. G., et al. "Changes in Health Care Spending and Quality 4 Years into Global Payment," The New England Journal of Medicine, 371(18)2014; 1704-14. CAD = coronary artery disease

The Alternative Quality Contract's Key Elements

- Global Budget covering all medical expenses for the group and set relative to expected levels. Level of risk varies by contract with most groups sharing savings with health plan.
- Opportunity for significant incentives based on performance against quality measures—the better a group's performance, the greater share of any savings—and the smaller share of any losses—the group receives.
- Long-term contracts - 3-5 year contract with fixed spending, quality targets

AQC's Key Elements…

- **Emphasis on data and feedback - Group-specific reporting and analysis with a dedicated support team to review performance and discuss improvement goals and strategies, periodic educational and best-practice sharing forums.**

The Medicare Doc Fix

- Congress patched the 2015 21% Medicare physician fee cut until March 31, 2015.
- The cost to "permanently" fix the repeated cuts under the Sustainable Growth Rate formula was a relatively bargain basement cost of $175 billion over ten years.
- The cost to extend the Children's Health Insurance Plan is another $6 billion over two years.
- Both the Republican House and Democratic Senate tentatively agreed to a major overhaul of the Medicare physician payment system in 2014.

Medicare Doc Fix…

- **The fix creates dual system—a budget neutral reform of the fee-for-service system with penalties and incentives based upon meeting cost and quality metrics, or the option of receiving bonus payments for participating in alternative payments systems with both upside and downside.**
- **Broad bipartisan and provider agreement to pass the legislation.**

SGR Deal

- Permanent fix for Medicare's Sustainable Growth Rate plus a two year fix for CHIP.
- Pay for only part of it—add the rest to the deficit.
- To pay for part of it are higher Medicare Part B and D premiums for upper income people, a new $175 deductible for Medigap plans starting in 2020, and cuts for post-acute care hospitals as well as reductions for other hospitals.
- A 0.5% annual raise for Medicare docs through 2019.
- In 2019 docs will pick the traditional fee-for-service track or an ACO track.

Where Will the Federal Budget Health Care Cuts Come From?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TELL CONGRESS:
NO MORE HOSPITAL CUTS


MASSIVE FUNDING CUTS
WILL HARM PATIENTS.
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Power Up

2015

- After two completed open-enrollments and going into the 2016 election-year, how will Obamacare be perceived?
- How will the Medicare Sustainable Growth Rate formula fix impact the business of heath care?
- *King v Burwell* – No way to predict and huge consequences.
- Will health care trend rates continue at historic low levels?
- How will the 2015 budget impact the health care entitlements?