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**Casualty Loss Reserve Seminar
Health Reform and Health Reserves**

September 20, 2010

Seeing the big picture to solve the biggest problems in health care.

see more. solve more.

Health Reform and Health Reserves

- Brief Summary – Reform
 - > Quick review of what has and may happen
 - > Implications to Payers and on Health Products
- Overview – Health Actuarial Reserves
 - > Big picture – assumptions and processes
 - > Similarities and differences from P&C coverage
- Implications – How Reform Changes Impact Estimates
 - > New liabilities or changing landscape
 - > How reform will impact estimation processes

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Health Reform and Health Reserves

- Law: 2200 pages ----- Regulation: 10,000 pages?
- Potential Implications – View #1
 - > Fundamental change in delivery of healthcare
 - > Massive shift in how and where people get health coverage
 - > Substantial change in how payers and providers are regulated
 - > Evolution to a new view of cost / benefit equation
- Potential Implications – View #2
 - > Emerging political reality of a reform that was pushed through
 - > Legal challenges and unraveling of PPACA
 - > Influence through Regulation and Funding
- Potential Implications – In Any Case
 - > Change is upon us and liabilities will be impacted

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Reform: First 90 Days

(6/23/10)

- High Risk Pool – bridge to 2014
- Early Retiree Reinsurance – employers induced to keep plans
- Small Group Tax Credit – 35% credit to create more plans
- Crack Down on Fraud
- Regulate Loss Ratio – BCBS MLR \geq 85%
- HHS Rate Oversight - “unreasonable” premium rate increases
- Increase funding for rural providers
- Medicaid Expansion – 133% FPL (state-option) for adults
- 10% Tax on Tanning Salons

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Reform: 6-month Provisions

(by 2011)

- Dependents to Age 26
- Removal of Lifetime and Annual Limits
- 100% Coverage of Preventive Care Services
- Prohibit Rescissions – except fraud and misrepresentation
- No Pre-Existing Condition Screening – Groups 2-50 EEs
- Eligibility can not discriminate based on salary
- HHS Interim Insurance Exchange Portal
- HHS to install “Effective” Appeals Process
- CLASS

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Reform: 2011 - 2013

- MLR targets for all insured plans:
 - > Individual & Small Group \geq 80%
 - > Large Group, \geq 85%
- W-2 Reporting of Health Costs
- Uniform Health Plan Documents
- Payment Reform to encourage ACOs/IDSS
- Payment Linked to Quality Outcomes
- Electronic Exchange of Health Information
- FSA Contributions \leq \$2,500/Yr. (CPI)
- Medicaid PCPs paid at Medicare rates

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Reform: Planned for 2014

- No Pre-Existing Limitations for Any Insureds
- Small Group rate banding
 - > Age (3.0:1 Max)
 - > Tobacco (1.5:1 Max)
 - > Geography
 - > Family Size
- Health Insurance Exchanges
 - > Standard Plans & Min Benefits
 - > Choice Thru Multi-State Option
 - > Risk Adjustment Mechanism
- Credits/Penalties – <400% FPL Credits / Increasing Penalties
- Medicaid Expansion to 133% FPL All Non-elderly
- Rate Review and Risk Adjustment (In & Out of Exchange)
- Temporary Risk Corridor Program

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2014 Projection Member Movement – New Mix?

Current Coverage (000s)	Coverage in Exchange			Out of Exchange		Medicaid CHIP	Medicare TRICARE & Other	Uninsured	
	Employer	Individual with Subsidy	Individual No Subsidy	Employer	Individual				
Employer	154,436	6,750	8,626	3,853	130,505	0	3,737	0	965
Non-Group	14,335	392	3,520	606	2,114	6,724	737	0	242
Retired	3,711	0	0	0	3,711	0	0	0	0
TRICARE	6,142	0	0	0	0	0	0	6,142	0
Medicare	33,195	0	0	0	0	0	0	33,195	0
Medicare Duals	6,811	0	0	0	0	0	0	6,811	0
Medicaid/SCHIP	41,673	588	417	91	1,396	0	39,181	0	0
Uninsured	49,191	2,362	7,555	2,212	7,576	0	11,016	0	18,470
Total	309,494	10,092	20,118	6,762	145,302	6,724	54,671	46,148	19,677

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Reform: Impact on Liability Estimates

- Claims Liabilities – IBNR and ICOS
- Premium Deficiency Reserves
- Active Life Reserves

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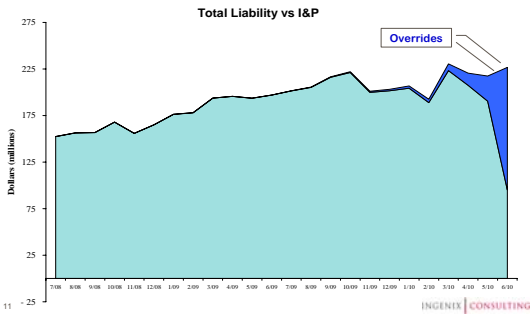
Impact: Nature of Claims Liability Estimates

- Classic Completion/Development Methodology
 - > Lags: Historical lags will predict future payment pattern
 - > Overrides: Most Recent 2-4 Months = substitute fully incurred estimate
 - Loss Ratios (Bornhuetter-Ferguson)
 - PMPM Incurred Cost Projections (trended fully incurred estimates)
- Processing and Speed of Payment
 - 90+% electronically submitted
 - High percentage of claims auto-adjudicated by system
 - Electronic funds transfer
 - Average Duration (Weighted Payment) – 2.5 to 5 Months
 - Months in Reserve (Liability/Average Incurred) – often below 2 months
- Estimates and Metrics
 - Lag-Based Portion often <50% of Liability – but sets base for extrapolation
 - Most recent incurred month often almost 1/2 the Liability
 - Inventory In-house and Speed of Payment are huge issues

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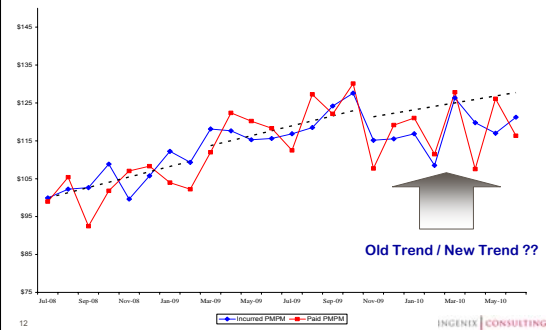
Claim Liability: Importance of Overrides



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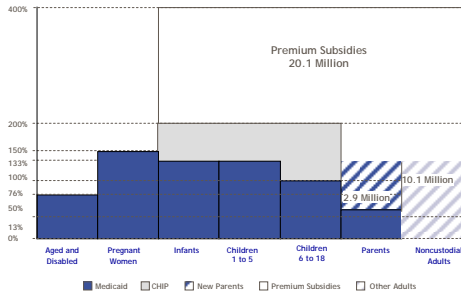
Claim Liability: Projection of PMPM Morbidity



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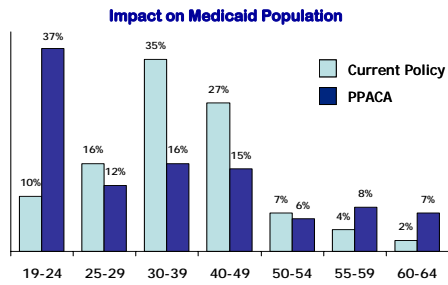
Expansions of Public Financed Eligibility



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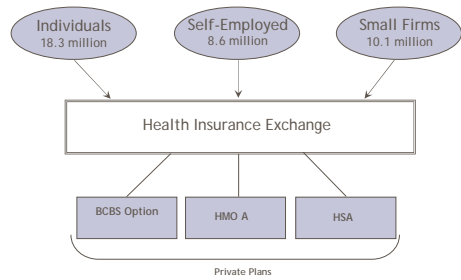
Claim Liability: Impact of Reform - Morbidity



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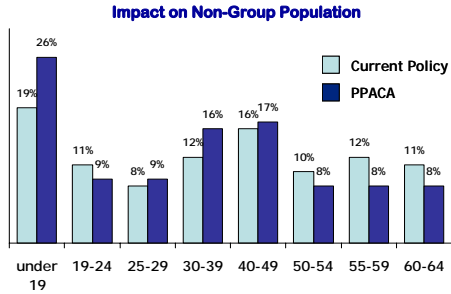
New State Operated Health Insurance Exchange



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Claim Liability: Impact of Reform - Morbidity



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Claims Liability: Impact Potential

- **Morbidity Mix**
 - > Trend Line – Historical PMPM Run Rate
 - New Population = New Morbidity
 - Impact of Cost-Sharing Limitations on Spend Rates
 - Impact of Subsidies and Penalties
 - Impact of Changes in Underwriting Slope
 - Predictive Modeling or Risk/Demographic Adjustment?
 - > Seasonality – Monthly Patterns
 - > Incidence of Large Claims
- **Operational Impacts**
 - > Speed of Payment – New & Different Population – Initially and Eventually
 - > Government Mandates – Turn-around time
 - > Inventories and operational turn-around

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Active Life Reserve: Impact Potential

- **Morbidity Reserve to Fund Shift in Morbidity by Duration**
 - > Underwriting and Pre-existing Limits: Initially low morbidity
 - > Wear-off: Morbidity increases as insured ages and conditions appear or get covered
 - > Expenses: High front-end acquisition spread to later durations
 - > Actual Practice: Theory not applied in its purest form
- **Impacts**
 - > No underwriting / no pre-existing limits after PPACA
 - > MLR Limits (80% target) significantly changes distribution and loads
 - > Potential change in age distribution and incidence of claims
 - > Self-selection: Current HSA experience quite favorable – can it be replicated?
- **Massive Changes in the Design and Operations**
 - > Fit under Exchanges?
 - > Voluntary Product Outside Mainstream?

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Premium Deficiency Reserve: Impact Potential

- **Morbidity Reserve to Fund Shortfall in Pricing**
 - > Known deficiency in emerging experience versus pricing projections
 - > "Surplus Stress Test": accelerate losses on contract until remediation can occur
 - > Set up at valuation date and release ratably until remediation date
- **Impacts**
 - > Huge disconnection in the markets may make pricing difficult
 - > Emergence of experience may make recognition difficult
 - > HHS "unwarranted increase" limitations may limit pricing remediation
 - > Current treatment: Required conversion and extension products often denied PDR
- **Open Issues**
 - > Will government allow Medicaid or Medicare Advantage to set up PDR
 - > Similarly, will Exchange products be allowed to have PDR?
 - > Can Surplus Levels of Carriers Sustain PDR?

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