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National Council on Compensation Insurance, Inc.

Implementing the Patient Protection and Affordable Care Act (PPACA or ACA)

Implications for Medical Costs in P&C Insurance

Presented by
Harry Shuford

CAS Ratemaking and Product Management Seminar
Impact of Healthcare Reform
March 22, 2011
New Orleans, Louisiana

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Implementing PPACA
Implications for P&C Medical

- Why Health Care Reform?
- PPACA & the Health Insurance Market
- Potential Impact of PPACA on P&C Medical Cost Trends

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Why Health Care Reform?

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Healthcare Reform—The Concerns

Med is 16% of GDP and growing – 33% by 2050?

- According to some this is “unsustainable”

Even though many others claim:

- 47 million uninsured – is unacceptable
- Higher infant mortality – is disturbing
- Lower Life Expectancy – is disappointing

"Reforming American Healthcare,"
The Economist, June 27, 2009, p. 75-77

Problems:

- **Inadequate coverage**
- **Uneven quality**
- **Soaring costs**

Healthcare Reform

A Closer Look

The Cost of Healthcare in the US

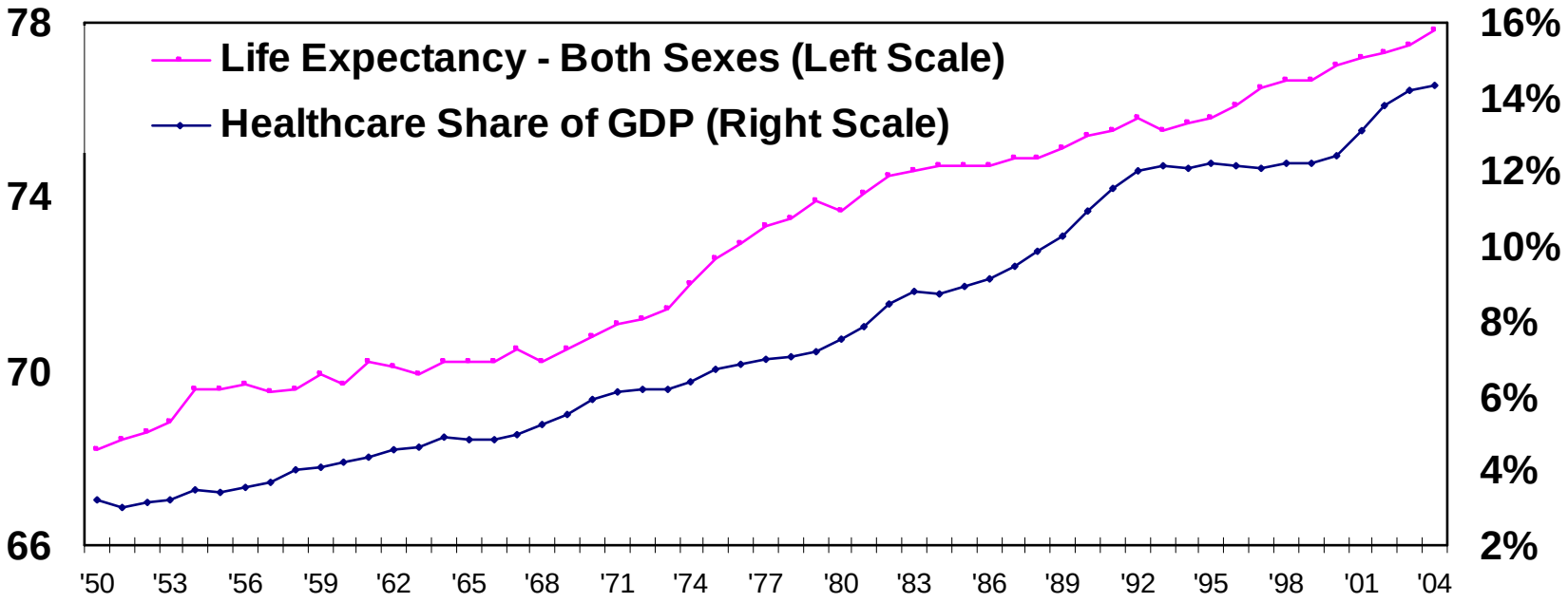
"Reforming American Healthcare,"
The Economist, June 27, 2009, p. 75-77

Costs – higher level likely due to:

- **High utilization due to the nature of incentives:**
  - **ESI (employer sponsored insurance) is subsidized => employers buy more generous coverage than otherwise**
  - **Low deductibles & copays => insureds consume more than otherwise**
    - **E.g., Routine care vs. catastrophic and chronic**
  - **Medical providers' incentives under "fee for service" compensation => provide more services**

Rising Healthcare Costs Are Correlated with Increasing Life Expectancy

Could the Increasing Share of Healthcare Spending Be Contributing to the Increase in Life Expectancy?



Sources: Centers for Disease Control and Prevention, U.S. Bureau of Economic Analysis

- Healthcare:
  - A “superior” good
  - Technology is adding to higher costs, but people want it

- Moral Hazard/Personal Choice as a contributor:
  - Smoking down – a plus
  - Obesity up – arguably because the downside can be managed by medicine
    - hypertension,
    - cholesterol,
    - diabetes

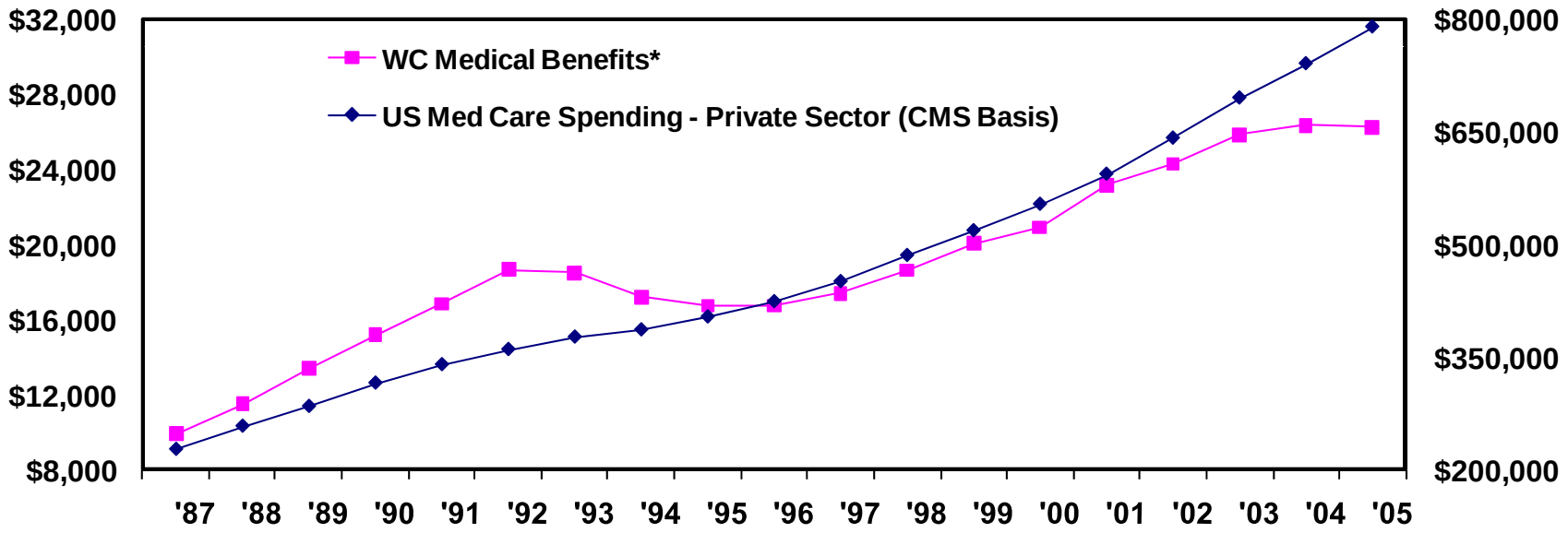
Medical Spending in the US:

How Does P&C Insurance Fit?

Workers Comp as an Example

Indeed, Workers Compensation Shares a Lot With the Country's Healthcare System

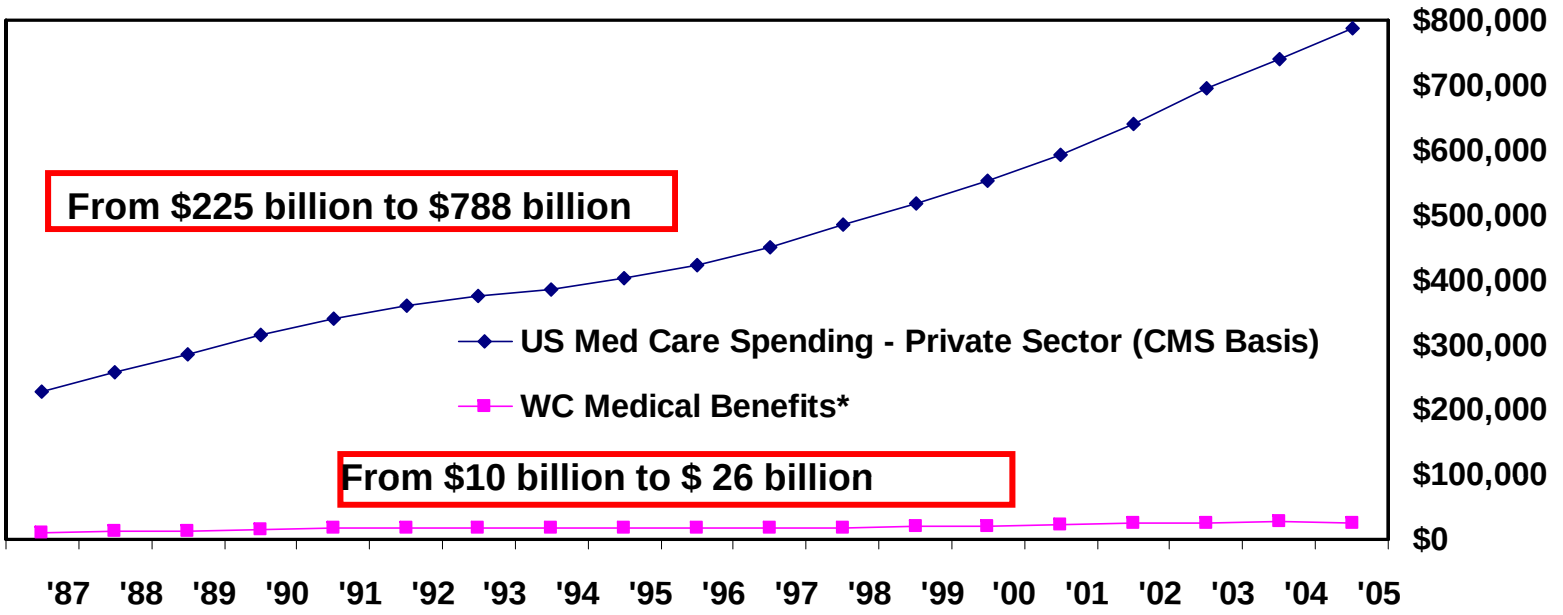
Total Medical Benefits Under Workers Compensation Have Edged Lower Recently, In Contrast to Ongoing Increases in Medical Care Spending
Millions of Dollars



Sources: National Academy of Social Insurance (NASI); Centers for Medicare & Medicaid Services (CMS)

What Is Surprising Is How Small We Are Compared to the Country Total

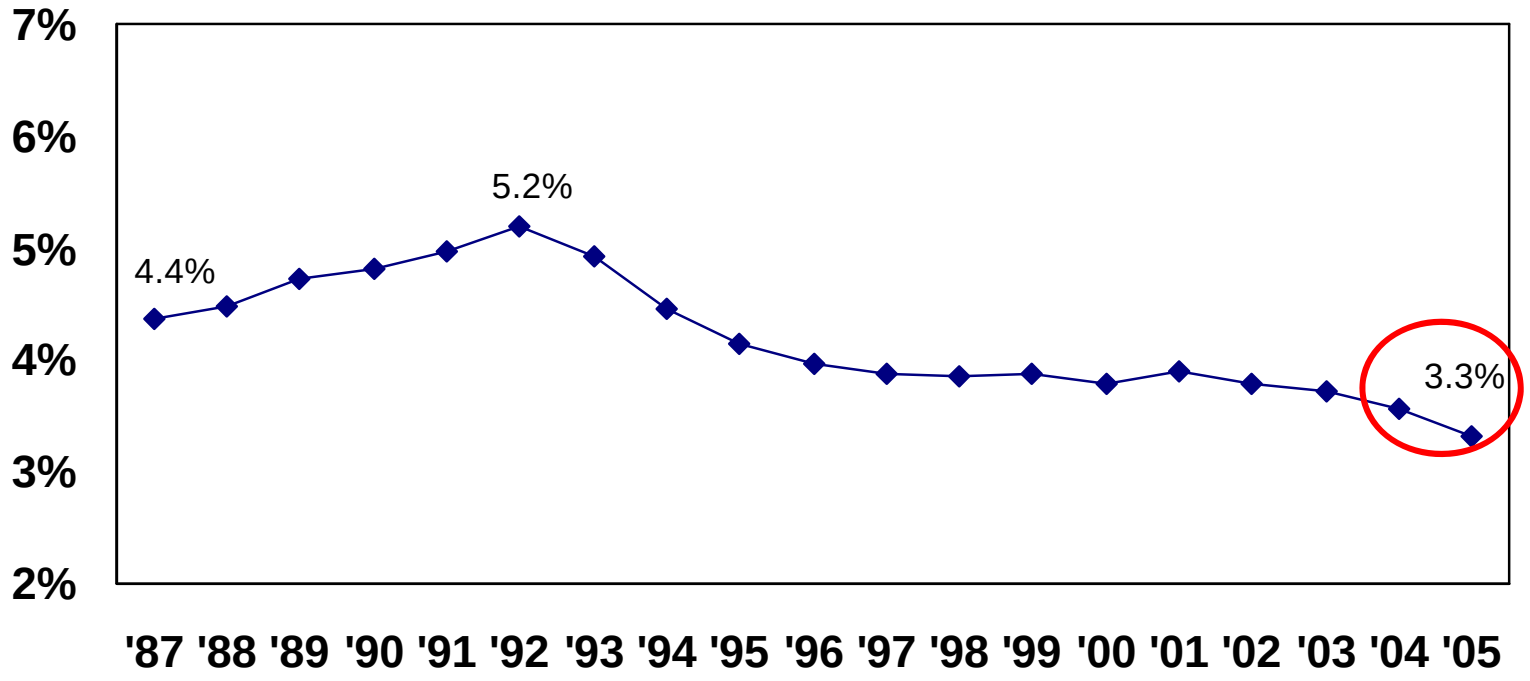
Total Medical Benefits Under Workers Compensation Are Modest Compared to US Medical Care Spending
Millions of Dollars



Sources: National Academy of Social Insurance (NASI); Centers for Medicare & Medicaid Services (CMS)

The WC Share of US Medical Costs: Small and Shrinking

Medical Benefits Paid Under Workers Compensation Have Been Declining as a Share of Medical Care Spending



Sources: National Academy of Social Insurance (NASI); Centers for Medicare & Medicaid Services (CMS)

Containing WC Medical Costs
What Else Can We Do?

P&C Insurance including Workers Comp

Likely Will Follow the Lead of Health Care Reform

PPACA & the Health Insurance Market

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Key Provisions of PPACA

Affordable Healthcare for All

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Key Provisions of PPACA*

- Requires most US citizens and legal residents to have “qualifying” health insurance
  - This is the “individual mandate”

- How does PPACA promote individual access to:
  - Qualifying health insurance with
  - Adequate benefits that is
  - Affordable

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Access to insurance – Employers & Exchanges

- Large employers (more than 50 employees) required to provide insurance or pay a "fee"
  - "Pay or play" fee of $2000 per employee
- Largest employers (more than 200 employees)
  - Automatic enrollment, employees must "opt out"
- Smaller employers (100 or fewer employees)
  - By 2013 – states to establish special insurance exchanges
- Individuals and families -
  - By 2013 – states to establish special insurance exchanges

Sources: US Senate, "Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation" and "Detailed Summary"; Kaiser Family Foundation, "Focus on Health Reform, Summary of New Health Reform Law"

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Key Provisions of PPACA*

Access to insurance – Guaranteed with Community Rating

- Guaranteed issue and renewability
- No limitations for pre-existing conditions
- No recessions/cancellations
- No annual or lifetime limits
- Community rating
- Limited rating variations (individual and small employer markets only)
  - Age, tobacco user, region and family composition

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Access to insurance – Exchanges & Health Plans

- State created "exchanges"
  - for individual and small employer markets
  - Open to "qualified health plans"
    - Adequate networks
    - Broad marketing/availability
    - Contracts with "essential community providers"
    - Contracts with "navigators" for outreach
    - Quality accredited
  - "Public option" – formed by HHS Office of Personnel Management
    - At least two multi-state programs in each exchange
    - At least one offered by a non-profit insurer
    - At least one restricts availability of abortion

Sources: US Senate, "Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation" and "Detailed Summary"; Kaiser Family Foundation, "Focus on Health Reform, Summary of New Health Reform Law"

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Key Provisions of PPACA*

Access to insurance – low income option

- Medicaid eligibility extended to 133% of Federal Poverty Level (FPL)
  - Provides access to health care services for low income – especially those exempted from the individual mandate
  - State administered
  - Large portion of added cost covered by Federal grants to the states

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Nature of Minimum Insurance Policy Provisions

- Policies available in the state created "exchanges" and in individual and small employer markets
  - Must meet or exceed "minimum benefits package"
    a) Comprehensive set of services
    b) Not more extensive than typical employer plan
    c) Must cover at least 60% of actuarial value of covered benefits
    d) Deductible and co-pay ("cost sharing") can not exceed current HSA (Health Savings Allowance) limits

Sources: US Senate, "Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation" and "Detailed Summary"; Kaiser Family Foundation, "Focus on Health Reform, Summary of New Health Reform Law"

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Key Provisions of PPACA*

"Essential Benefits" include:

1. ambulatory patient services;
2. emergency services;
3. hospitalization;
4. maternity and newborn care;
5. mental health and substance use disorder services, including behavioral health treatment;
6. prescription drugs;
7. rehabilitative and habilitative services and devices;
8. laboratory services;
9. preventive and wellness services and chronic disease management; and
10. pediatric services, including oral and vision care."

Source: www.healthcare.gov/glossary

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Key Provisions of PPACA*

Options to Scope of Coverage

- Policies available in the state created "exchanges" and in individual and small employer markets
  - Four premium "tiers" based on share of benefit costs covered
    a) Bronze - 60%,
    b) Silver - 70%,
    c) Gold - 80%,
    d) Platinum - 90%
    e) Out-of-pocket limited to current HSA limit
  - All preventative services covered in full
  - Significant limitations on permissible coverage for abortions

Sources: US Senate, "Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation" and "Detailed Summary"; Kaiser Family Foundation, "Focus on Health Reform, Summary of New Health Reform Law"

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Key Provisions of PPACA*

Affordability – Individuals and Families

- Premium (in exchanges)
  - Refundable and advanceable premium credits to individuals and families to limit premium to:
    - 2% of taxable income for those up to 133% of FPL
    - 9.5% of taxable income for taxable income less than 400% of FPL (just over $80,000)
  - Employers offering health insurance must also offer a “free choice voucher” to employees earning less than 400% of FPL that may be applied to premium in the exchange if they so choose
    - Value of voucher to equal to what the employer would have paid to insure that employee

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Affordability – Individuals and Families

- Cost sharing (deductibles and co-pays) limits imposed on plans in the exchanges
  - Not to exceed a limit based on current FSA limit*
    - 100% to 200% FPL => 1/3 of FSA
    - 200% to 300% FPL => 50% of FSA
    - 300% to 400% FPL => 2/3 of FSA

* Set in PPACA as $2500

Sources: US Senate, "Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation" and "Detailed Summary"; Kaiser Family Foundation, "Focus on Health Reform, Summary of New Health Reform Law"

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Key Provisions of PPACA*

Affordability – Small Employers

- Small employers (no more than 25 employees and average annual wages of less than $50,000)
  - Eligible for tax credits for a portion of the employer's contribution to the purchase of insurance
  - Amount of credit varies by employer size

Sources: US Senate, "Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation" and "Detailed Summary"; Kaiser Family Foundation, "Focus on Health Reform, Summary of New Health Reform Law"

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Potential Impact of PPACA on P&C Medical Cost Trends

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Key Provisions of PPACA*

Cost Containment

- Administrative simplification and standardization
- Annual adjustments for changes in market basket and productivity – Medicare fees

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Cost Containment

- Control Growth in Medicare Spending
  - Accountable care organizations (ACO)
  - Reduced payments for excess hospital readmissions
  - Reduced payments for “hospital acquired conditions” (“Never events” – e.g. MRSA, surgery mistakes)

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Cost Containment

- Comparative Effectiveness Research
  - Compare clinical effectiveness of medical treatments
    - Limitations on use; not to be interpreted as:
      - Mandate or guideline
      - Recommendations for treatment, coverage denial, payment
- Medical malpractice demonstration projects
  - Examine alternatives to tort litigation

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Cost Containment

- Medicare payment options
  - "Bundled payments" – pay per episode
    - Includes hospitalization
    - Begins 3 days prior to hospitalization
    - Extends 30 days past discharge
  - "Value Based" payments
    - Pay for performance based on quality measures
      - Hospitals
      - Skilled nursing facilities
      - Ambulatory care centers

Sources: US Senate, "Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation" and "Detailed Summary"; Kaiser Family Foundation, "Focus on Health Reform, Summary of New Health Reform Law"

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Key Provisions of PPACA*

Quality Improvement

- Prevention & Wellness
  - Prevention programs
    - Funding for prevention and public health programs
    - Evidence based and community based prevention and wellness programs
    - Reducing chronic disease rates and wellness services
  - Wellness programs
    - Small employers that provide wellness programs to get grants and technical assistance
    - Permit employers to offer incentives of up to 30% of cost of coverage for participating in wellness programs

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Quality Improvement

- Prevention & Wellness
  - Primary care providers and prevention
    - Increase fee for services to Medicare level
    - Bonus payments of 10% thru 2015

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Quality Improvement

- Trauma Care
  - Establish a new trauma care center program
    - Strengthen emergency department and trauma center capacity
  - Fund research in emergency medicine
  - Develop demonstration programs to design, implement, and evaluate innovative models for emergency care systems

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Key Provisions of PPACA*

Lots of potential for actuarial work

- Program design and pricing
- Regulatory rate reviews
- Managing the loss ratio cap

Sources: US Senate, “Affordable Care Act: Section-by-Section Analysis with Changes Made by Title X and Reconciliation” and “Detailed Summary”; Kaiser Family Foundation, “Focus on Health Reform, Summary of New Health Reform Law”

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Potential Impact of Health Care Reform

On Medical Cost Trends in P&C Insurance

P&C Insurance and Health Care Reform

- Medical trends in P&C insurance typically reflect what has been and what will be happening in healthcare nationally
- In particular the most likely changes to the delivery system:
  - Evidence based medicine
  - Pay per episode
  - Pay for outcomes
  - Reimbursement schedules
  - Accountable Care Organizations

Thank You

Questions