PPACA 2014
What Happens Next?

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November, 2012

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The Emotional Roller Coaster for Health Actuaries and Their Employers/Clients

March 23, 2010: Patient Protection and Affordable Care Act Passes

Initial Reaction: Whoa, we have a lot to do before 2014, we better make a list!

Aftermath: Well, maybe we have time – let's wait for the regulations to come out and start slowly.

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Emotional Roller Coaster

November 15, 2011: Supreme Court announces it will hear arguments on constitutionality of law in June 2012.

Initial reaction: We really can't stop preparing, can we?

Aftermath: OK, if we start in July of 2012 there will still be time.

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Emotional Roller Coaster

June 28, 2012: Supreme Court upholds PPACA (minus Medicaid expansion penalties).

Initial reaction: OK, NOW it's time to dig our heels in

Aftermath: Then again, it is an election year…

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Emotional Roller Coaster

November 6, 2012 Election: XX wins

If XX = Obama

- Initial Reaction: We better pull out the to do lists.
- Aftermath: Maybe it will be delayed, but we better get started

If XX = Romney

- Initial Reaction: Maybe it will be repealed/changed/delayed.
- Aftermath: We better pull out our lists just in case

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Talking Points

- The ACA on two slides – Done, Not Done
- What do the other to do lists look like?
  - Carriers
  - States
  - Feds
  - Large Employers
  - Small Employers
- Conclusions

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ACA - Done

- ✓Elimination of Lifetime Maximums
- ✓Increase in Allowable Annual Maximums
- ✓Preventive Benefits Paid First Dollar
- ✓Dependents to Age 26
- ✓No pre-ex on children
- ✓Small Business Tax Credits Started
- ✓Pre-Existing Condition Insurance Plan (PCIP) Implemented
- ✓Minimum Loss Ratios and Resulting Rebates
- ✓Rate Review

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ACA – To Do (Mostly in 2014)

- Elimination of annual maximums
- New health plan rating rules
- Essential Health Benefits
- Individual mandate with subsidies offered through exchanges
- SHOP (Small Employer) exchanges
- Employers (51+) must offer coverage or pay a penalty
- Medicaid expansion funding for states that choose to participate

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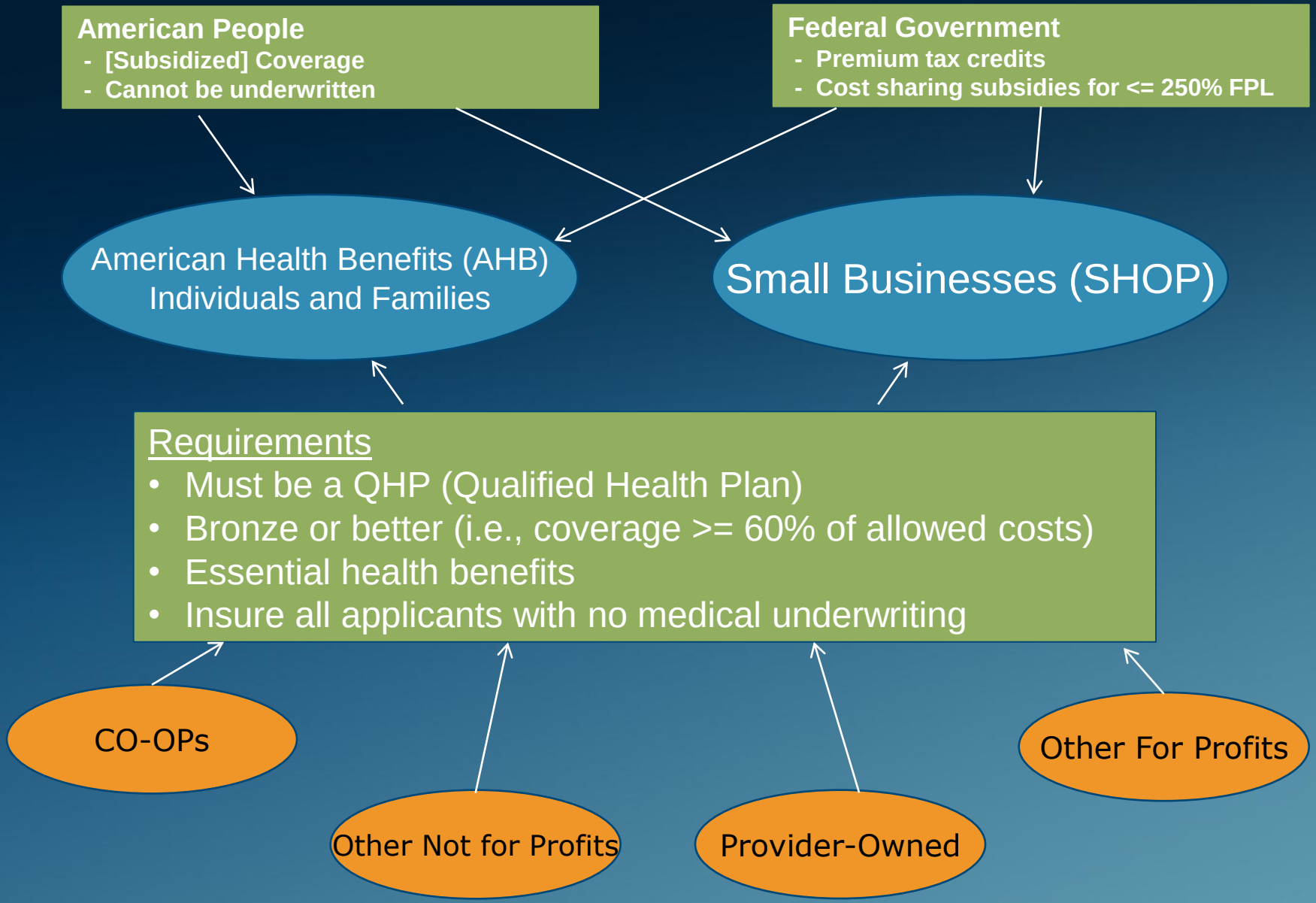
What New Features Look like When It's Done



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Health Insurers' To Do List

- ❑ Decide where and how to play
- ❑ Design benefit plans
- ❑ Pricing 2014

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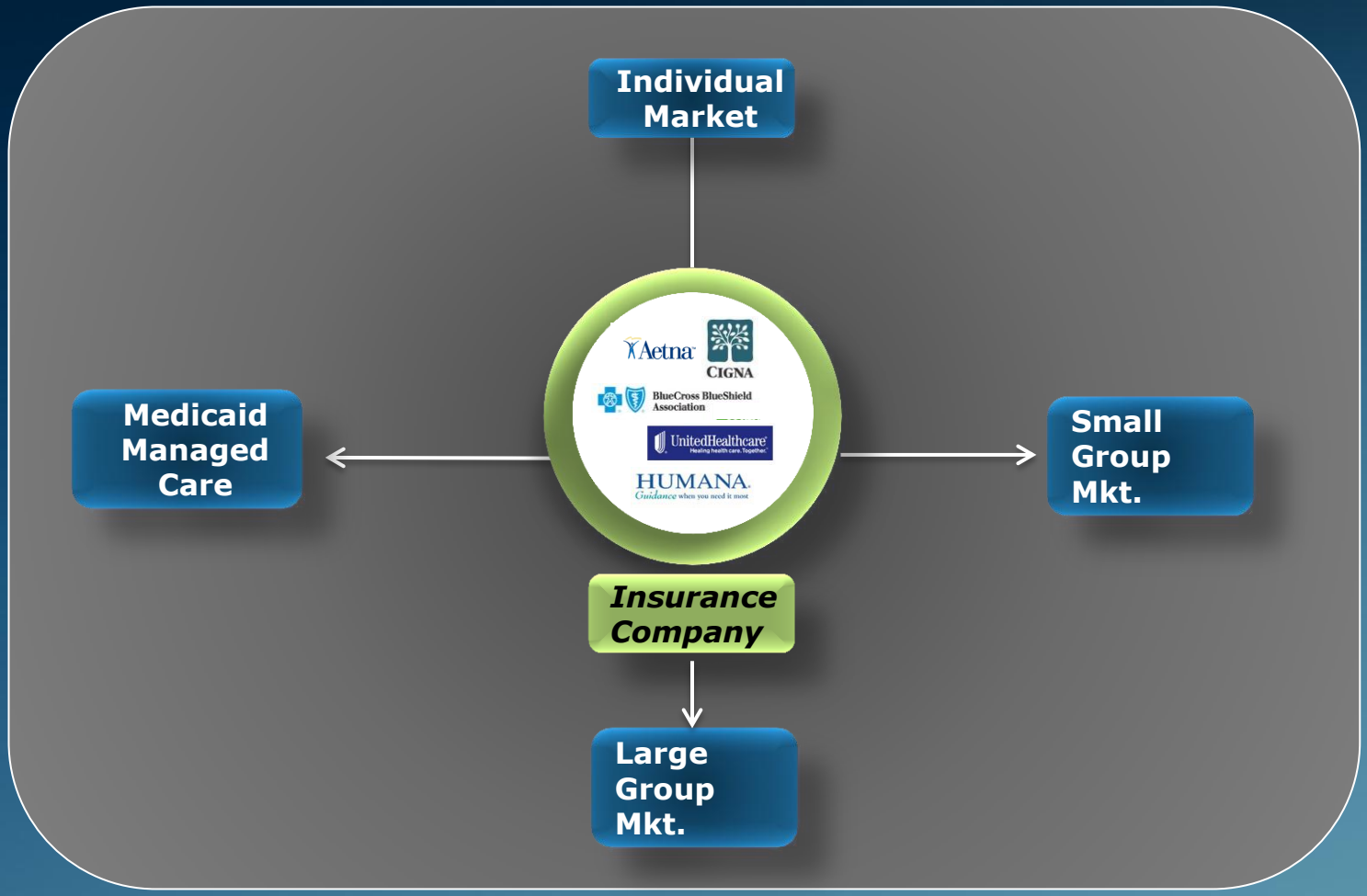
Insurance Company Choice - Now



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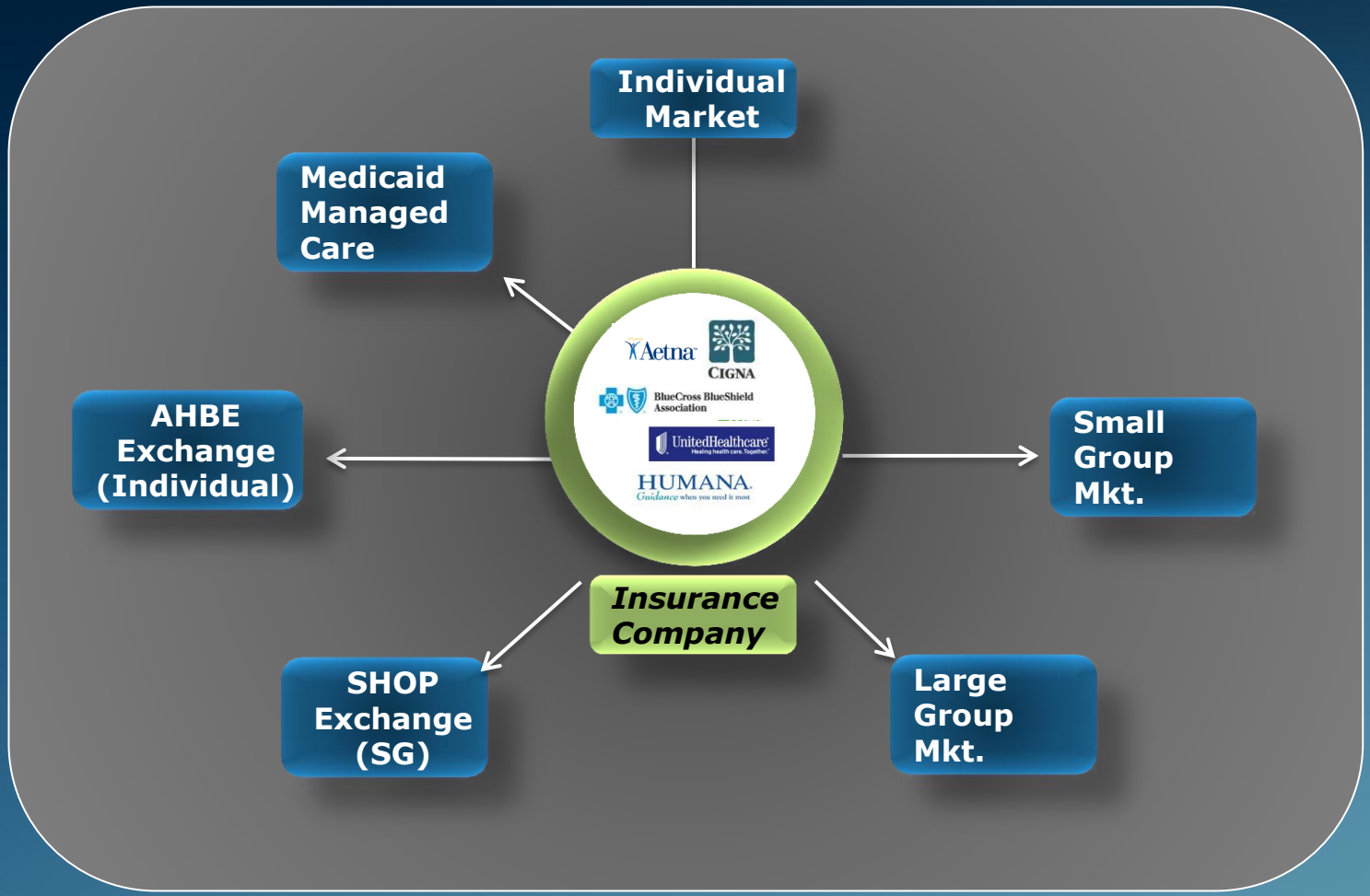
Insurance Company Choice - 2014



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Considerations in Designing Benefit Plans

- Essential benefits and not much more
- CMS's actuarial value calculator
- Cost sharing limits
- Number of plans by metal tier; any meaningful difference rules?
- Catastrophic plan: Is it a separate rating pool or not?

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The Actuarial Value Calculator Won't Be Perfect

- General population's average alloweds by state grouping (not reflecting discounts)
- Inclusions
  - Deductible, copays, coinsurance, OOP
  - 1 drug in every class
- Exclusions
  - OON cost sharing (but it may have limits)
  - Formularies
  - Network breadth
  - DoHCM

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Commercial Market
2014 Carrier Pricing

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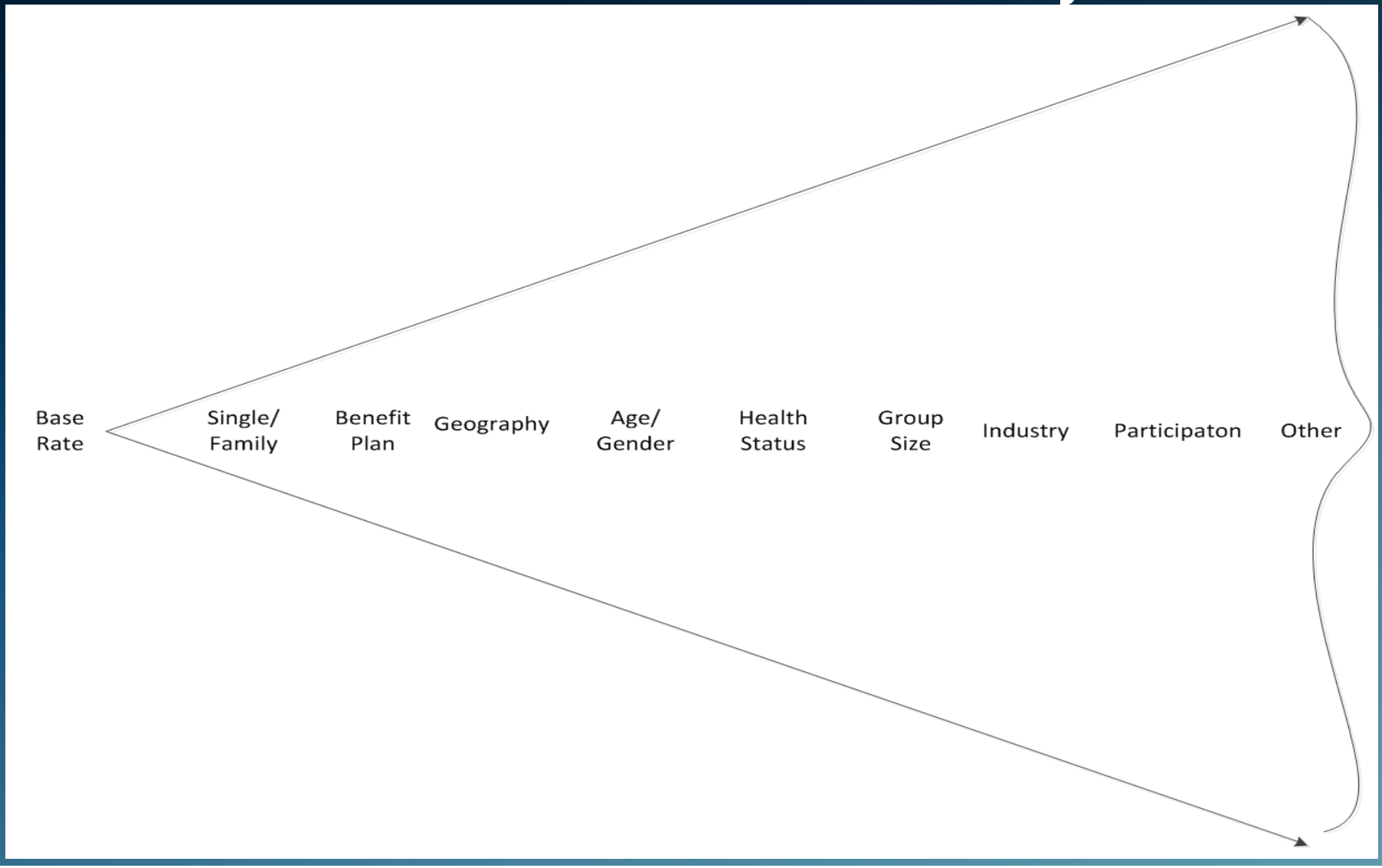
Pre-2014: Some Reflection of Morbidity in Rates



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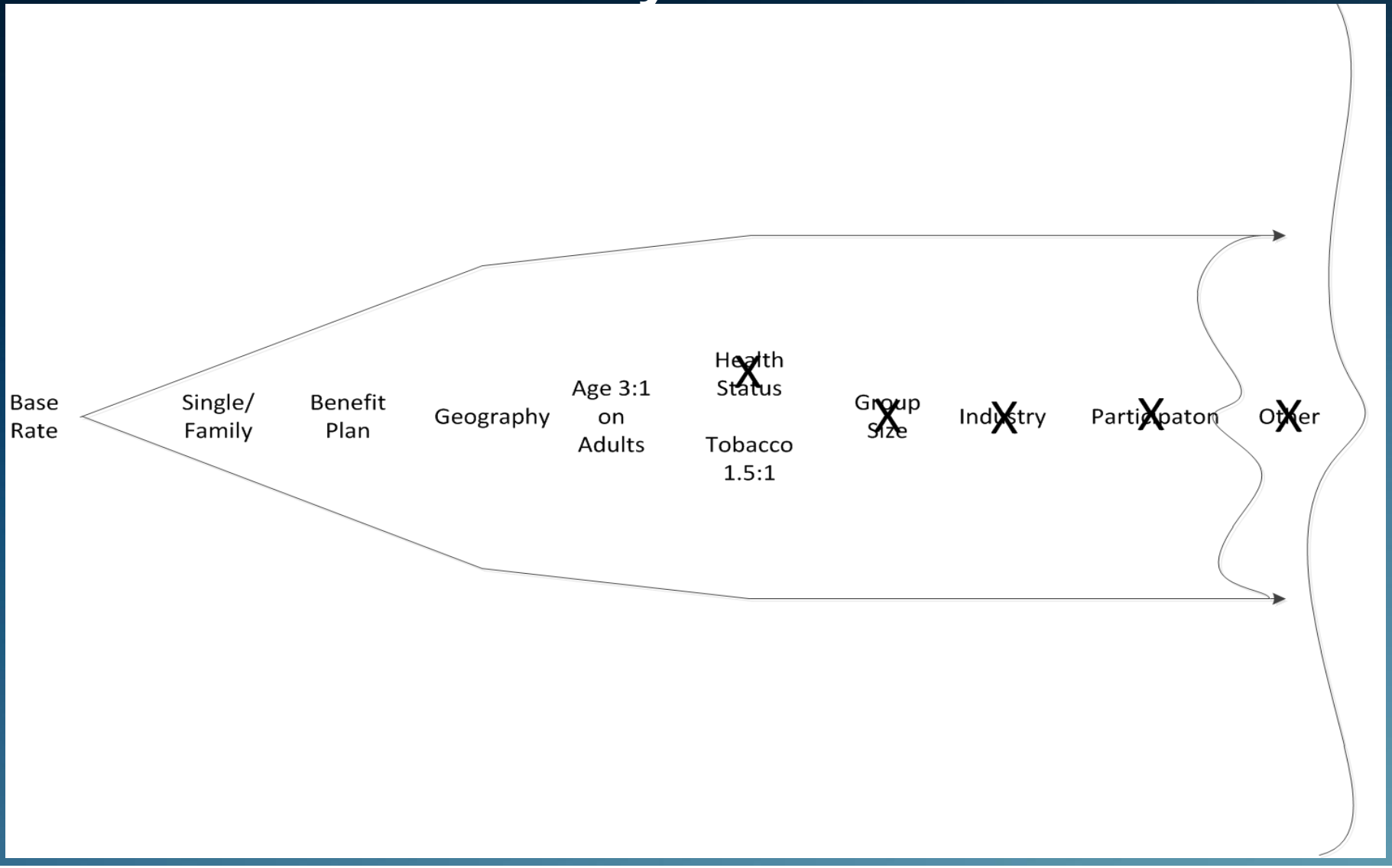
2014+: The Healthy Subsidize the Sick



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Pricing 2014: Many Moving Parts

- Start with current base rate
- Adjust for myriad of variables:
  - Relative morbidity of new entrants (e.g., uninsured, high risk pool)
  - Adverse selection:
  - Benefit changes (due to ACA requirements)
  - New taxes: HIT, reinsurance subsidy, comparative effectiveness, etc.
  - Other issues (e.g., no Medicaid expansion or provider cost shifting if Medicaid expands)
- Make rating factors ACA-compliant
- Strategy

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Price for "3R's" - Main Risk Mechanisms

	Reinsurance	Risk Adjusters	Risk Corridors
Goal	Reimburse individual carriers for likely adverse selection due to insuring highest cost individuals.	Mitigate adverse selection by ensuring plans compete based on efficiency (e.g., discounts, admin costs, etc.), not health status.	Give carriers comfort when participating in new markets on 1/1/14 by limiting their gains / losses.
Mechanism	All plans (including self-funded) will pay into a pool from which individual carriers will draw based on a percent of individual claims beyond an attachment point.	HHS will use a distributive approach to collect medical diagnoses (HCCs) and calculate a zero-sum payment transfer among the carriers based on a concurrent basis on medical and Rx costs for their risks insured.	Government will collect from (or reimburse) qualified health plans based on their financial results beyond a 3% loss ratio corridor after the reinsurance and risk adjustment calculations.

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States' To Do Lists

- Make Decisions
- Exchange Development for Some
- Healthcare Reform Coordination for All

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States: So Many Decisions, So Little Time

- Exchange Format
  - State Based, State Partnership, or Federally Facilitated?
  - Active vs. Passive?
- Will they expand Medicaid?
- Allow non-exchange market?
- Merge individual and small group?
- Keep small group market < 51?
- Require carriers to offer if they operate in non-exchange market?
- Use Federal risk adjustment system beyond year 1?

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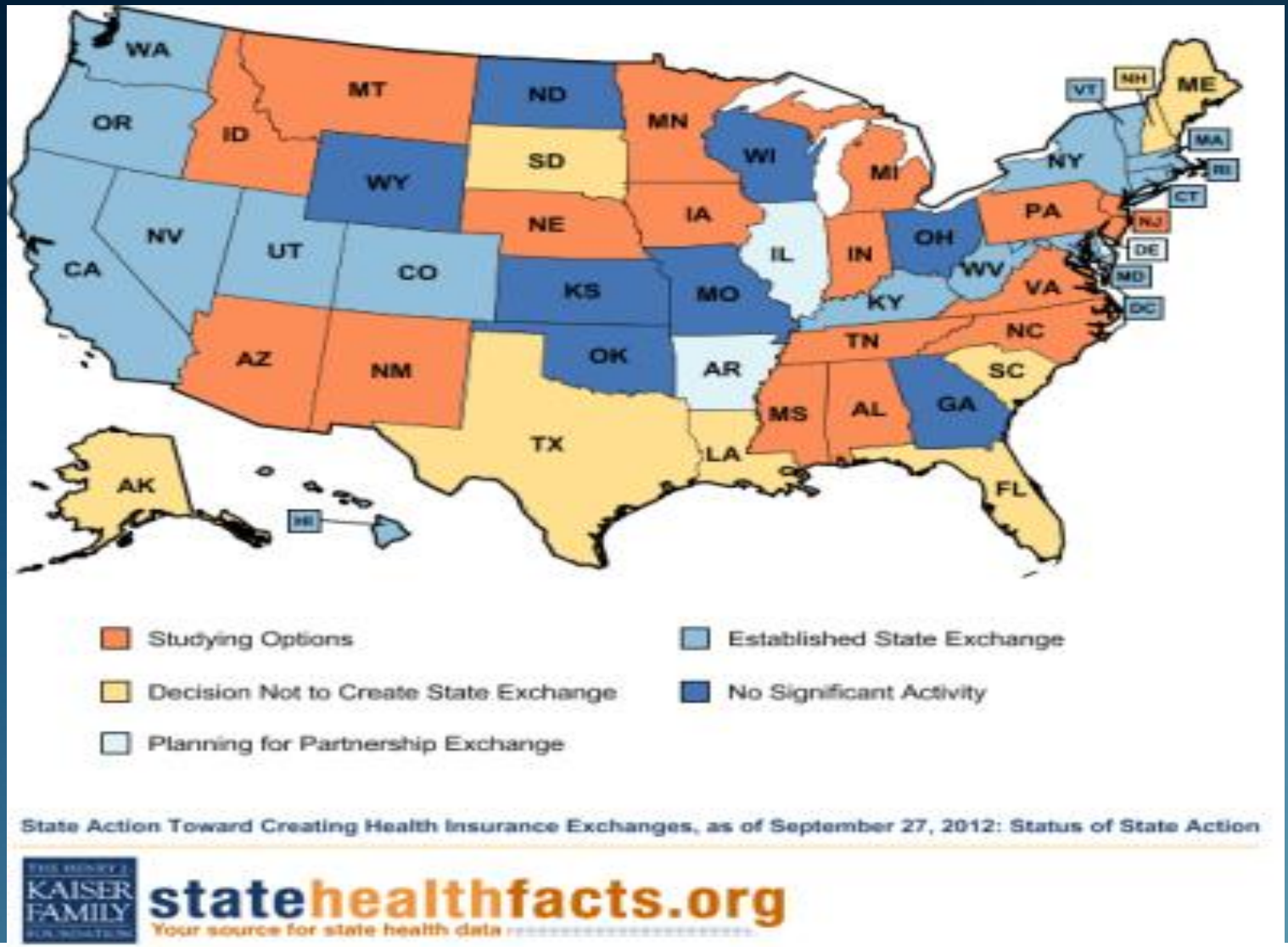
Exchange Activity by State



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Exchange Development – Partial To Do List

- Governance
- Health plan selection strategy
- Implementation plan to be operational on or before 1/1/2014
- IT infrastructure
- Develop plan rating system
- Enrollee billing procedures
- Plan to make Exchange financially self-sustaining by 2015
- Education strategy
- Test functionality

ACA Coordination – Partial List*

- ❑ Develop a coordinated approach to implementation
- ❑ Regulate commercial health insurance market
- ❑ Simplify and integrate eligibility systems
- ❑ Improve provider and health system capacity
- ❑ Attend to benefit design
- ❑ Emphasize coordination of care
- ❑ Use your data
- ❑ Pursue population health goals
- ❑ Engage the public in policy development and implementation
- ❑ Promote quality and efficiency in the health care system

* From list of indicators, statereforum.org from National Academy for State Health Policy

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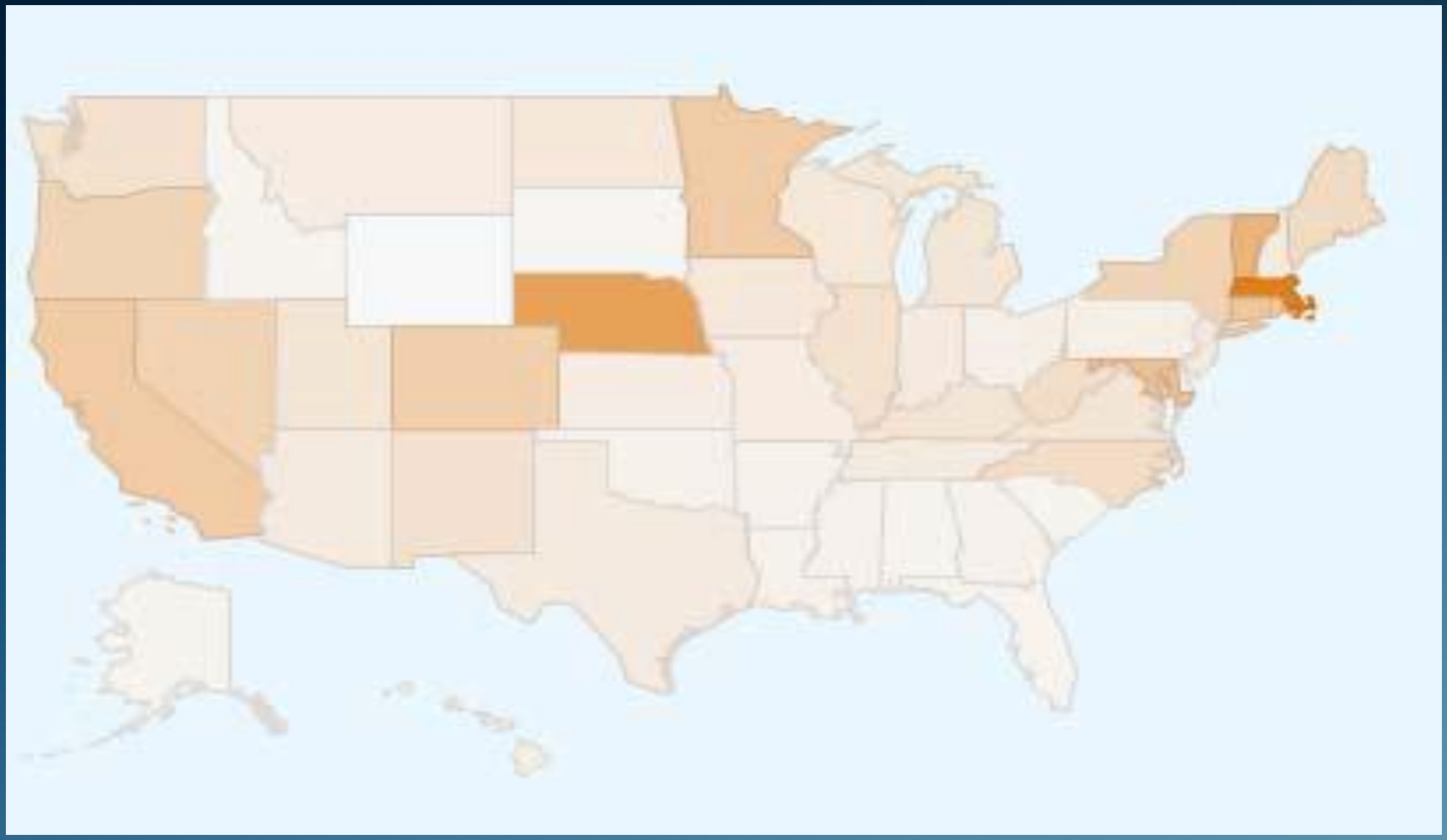
State Progress Report*



*www.statereforum.org/states

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State Progress Report - % Complete*

- All states: 9%
- Texas: 6%
- Louisiana, Arkansas, Oklahoma: 3%
- New Mexico: 10%
- California, Minnesota: 20%
- Vermont: 30%
- Nebraska: 39%
- Massachusetts: 54%

*www.statereforum.org/states

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Federal Government To Do

- Release Actuarial Value Calculator (Please!)
- Build Federal Exchange
- Lots and lots of regulations

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Large Employers' To Do

- Offer?
- Consider benefit design and/or contribution changes
- Consider self-funding

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Does My Current Coverage Provide "Minimum Value" and is it "Affordable"?

Employer with >50 employees must offer at least one plan that:

a. Provides minimum essential value (i.e., Bronze or better)

b. Is affordable (i.e., "single" ee contribution is <9.5% of total household income, indexed after 2014). [1]

[1] Note: (1) Employee income serves as a safe harbor if the employer cannot gather household income and (2) Based on interim regulations, families with contributions higher than 9.5% of their household income do not qualify for a premium subsidy, but are exempt from paying the individual penalty if their family coverage is unaffordable (i.e., > 8% of their household income).

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Most Large Employers will Play vs. Pay

51+ ER Offering	Annual Penalty
"Affordable/Minimum" (A/M):	None
Non-"A/M" Coverage:	Min [(Total EEs – 30) x $2,000, $3,000/EE receives subsidy]
None	(Total EEs – 30) x $2,000 if at least one FT EE receives a government subsidy through the exchange

Definitions:

Affordable:	Employee premium is <9.5% of household income
Minimum value	Bronze (i.e., 60%) or better

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Self-Funding Will Almost Surely Increase

- Upside
  - Avoid Taxes/Fees
    - Now: Premium tax (~2%) + Insurer's risk charge/profit (~1-2%) = 3-4%
    - 2014: HIT (1-4%) + State exchange and reinsurance pool admin (1-6%)
    - Total = 5% to 14%??
- Downside
  - You're taking more risk (possibly mitigated with stop-loss coverage)
  - May not get as good of discounts; need to verify

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Small Employers' To Do List

- ❑ Offer?
- ❑ Consider benefit design and/or contribution changes
- ❑ Consider options – self-funding, SHOP

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Offer Equation for Small Employers

- Similar to large group but no penalty;
- Employees may have access to exchange subsidies if don't offer (and may not if do offer);
- Self-funding more difficult than for large employers;
- Small business tax credits;
- SHOP option may make purchase process easier;
- Will be difficult to make decisions until see options and pricing

Conclusions

- A lot of work to be done
- Landscape in 2014 will represent a significant change
- No one will be fully “ready”
- 2014 won’t be pretty if there is no delay – expect emotional roller coaster to continue

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Questions

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