

Health Care Reform under the Affordable Care Act

The Rumors, Myths, Misinformation, and Truths

David M. Dillon, FSA, MAAA
Lewis & Ellis, Inc.
Dallas Office



Actuaries Club of the Southwest – 2010 Spring Meeting

- The following is the opinion of the presenter only. It does not reflect the opinion of Lewis & Ellis, Inc. or the ACSW.
- The following should not be construed as legal advice.
- The presenter does not make any warranties or representations as the accuracy or completeness of the material.



Actuaries Club of the Southwest – 2010 Spring Meeting

- “A bill truly becomes law only when the final regulations it requires have been written by the bureaucracy and duly vetted”

Uwe Reinhardt – Economics Professor at Princeton



Actuaries Club of the Southwest – 2010 Spring Meeting

“Major” Provisions & Topics to Discuss

- A Description of the Currently Uninsured
- Individual Mandate
- Employer Mandate
- Health Plan Provisions
- Insurance Market Reforms
- Exchanges
- Review of Premium Increases
- What is Not Affected by Reform
- The Impact on the Cost of Health Care
- The Results of Massachusetts Reforms



Actuaries Club of the Southwest – 2010 Spring Meeting

Other Implications to Discuss

- Retiree Health
- Cadillac Tax
- Marketplace Implications



Actuaries Club of the Southwest – 2010 Spring Meeting

The Uninsured

Health Status	<100% FPL	100-200% FPL	200-300% FPL	300-400% FPL	>400% FPL	Total
Excellent	27.9%	23.7%	16.6%	10.2%	4.7%	12.6%
Very Good	32.0%	27.2%	16.9%	10.5%	5.8%	15.0%
Good	35.2%	27.9%	21.1%	14.5%	8.1%	19.8%
Fair	27.5%	18.1%	13.8%	9.9%	8.3%	16.0%
Poor	20.8%	9.5%	12.7%	7.9%	7.2%	12.6%
All	30.4%	24.3%	17.5%	11.3%	6.0%	15.4%



Adults 18 – 64
Source: US Census Bureau
Current Population Survey, 2009

Actuaries Club of the Southwest – 2010 Spring Meeting

The Uninsured

Health Status	<100% FPL	100-200% FPL	200-300% FPL	300-400% FPL	>400% FPL	Total
Excellent	2,853	3,451	2,664	1,435	2,062	12,465
Very Good	3,400	4,240	2,658	1,422	2,146	13,867
Good	3,897	4,403	2,947	1,461	1,834	14,541
Fair	1,372	1,251	645	287	458	4,014
Poor	600	315	240	84	118	1,358
All	12,122	13,660	9,155	4,690	6,619	46,245



Adults 18 – 64 (in 000s)
 Source: US Census Bureau
 Current Population Survey, 2009

Actuaries Club of the Southwest – 2010 Spring Meeting

The Uninsured

Health Status	Ages 18-29	Ages 30-49	Ages 50-64
Excellent	50.0%	39.7%	10.3%
Very Good	41.7%	42.8%	15.5%
Good	32.2%	44.6%	23.2%
Fair	20.6%	44.2%	35.2%
Poor	12.2%	45.1%	42.7%



Source: US Census Bureau
 Current Population Survey, 2009

Actuaries Club of the Southwest – 2010 Spring Meeting

Individual Mandate (Responsibility)

- The penalty is the lesser of:
 - Avg Bronze Premium
 - The Greater of % Excess Income vs. Flat Fee

2014: 1% or \$95 per adult
2015: 2% or \$325 per adult
2016: 3% or \$695 per adult



Actuaries Club of the Southwest – 2010 Spring Meeting

Individual Mandate

- Will enough healthy uninsured purchase coverage to compensate for the # of people in poor health.
 - The health status of those in “poor” health expected to be 5-10 times worse than healthiest
- Hope is that the Mandate will reduce costs because of more coverage for the healthy



Actuaries Club of the Southwest – 2010 Spring Meeting

Individual Mandate

- “Just bringing young adults into the (insurance) pool will lower premiums by 7 to 10 percent,” said Sara Collins, a vice president at The Commonwealth Fund, a private health research foundation. “Having young adults in the plan is really critical.”
- In states where “there’s no mandate for everyone to be in,” said Cori Uccello, American Academy of Actuaries, “healthy people are more likely to decide the premium is not worth it, so they don’t participate.”



- Bendbulletin.com

Actuaries Club of the Southwest – 2010 Spring Meeting

Individual Mandate

- **Sample Take Up Formula** (from Ken Thorpe, Emory University)
 - Take Up % = $[(1 - \text{NewPrem as \% of Income})^2] \times [(1 - \text{NewPrem/OldPrem}) \times 0.75]$
 - Does not take into effect Health Status
 - Does not take Mandate into effect
- **Take Up % by Subsidy Amount**

Income	10%	20%	30%	40%	50%
10,000	2.9%	6.6%	11.2%	16.8%	23.4%
20,000	4.9%	10.4%	16.4%	22.9%	30.0%
30,000	5.7%	11.8%	18.3%	25.2%	32.4%
40,000	6.1%	12.6%	19.3%	26.3%	33.7%
80,000	6.8%	13.8%	20.9%	28.1%	35.6%



Actuaries Club of the Southwest – 2010 Spring Meeting

Employer Mandate

- Essentially a Pay-or-Play Penalty for Large Employers
 - The sum of:
 - \$2,000 X (# of FTE Ees – 30)
 - \$3,000 X (# of Ees subsidized in Exchange)
 - Will be indexed for inflation
 - Will Large Employers drop coverage if cheaper?
 - Auto-enrollment and other requirements expected to increase admin costs.



Actuaries Club of the Southwest – 2010 Spring Meeting

Employer Mandate

- From *Fortune* Magazine:
 - AT&T produced a PowerPoint slide entitled "Medical Cost Versus No Coverage Penalty."
 - A document prepared for Verizon by consulting firm Hewitt Resources stated, "Even though the proposed assessments [on companies that do not provide health care] are material, they are modest when compared to the average cost of health care," and that to avoid costs and regulations, "employers may consider exiting the health care market and send employees to the Exchanges."



Actuaries Club of the Southwest – 2010 Spring Meeting

Employer Mandate

- From *Fortune Magazine*:
 - Kenneth Huhn, vice president of labor relations at Deere, said in an internal email that his company should look at the alternatives to providing health benefits, which "would amount to denying coverage and just paying the penalty," and that he felt he already had the ability to make this change under his company's labor agreement.
 - The Congressional Budget Office, in its crucial cost estimates of the bill, projected that company plans will cover more employees ten years from now than today.



Actuaries Club of the Southwest – 2010 Spring Meeting

Health Plan Provisions

- Immediate Changes
 - No Lifetime Limits
 - Annual Limits: Restricted until 2014, prohibited thereafter
 - No Child Pre-ex
 - Dependents to age 26
 - Full Coverage of Preventative
 - OON ER Cost-sharing = In
- Reinsurance & Stop Loss should become more important
 - Will the % of benefits self-insured decrease with stop-loss increased



Actuaries Club of the Southwest – 2010 Spring Meeting

Insurance Market Reforms

- The stated goal is to reduce barriers to obtain or keep coverage
- No Pre-ex, No Lifetime Limits, No rescissions
- Guarantee Issue
 - Is the mandate strong enough?
- Community Rating
 - Age (3 to 1), Area, Tier, Tobacco
- Maximum OOP = HSA HDHP Equivalent
- Minimum Benefits
 - How do these compare to popular limited and non-limited plans?
 - How does this effect the affordability issue?
- States are allowed to merge Ind & SG markets



Actuaries Club of the Southwest – 2010 Spring Meeting

Insurance Market Reforms

- Minimum loss ratios (80% -85%)
 - Different formula from NAIC
 - What combo of Ind,SG, LG
 - Nationwide vs. State, By Product
 - Credibility Issues
 - Direct vs Net of Reinsurance Premiums
 - Ceding to non-health issuer
 - Unfairly impact small carriers
 - Could be modified up or down by state or HHS



Actuaries Club of the Southwest – 2010 Spring Meeting

Insurance Market Reforms

- MLR Disruptions to Individual Market
 - Products originally priced for lower MLR
 - How to reduce the non-claim costs
 - Commissions (Contract issues)
 - Admin higher for Ind vs. SG, but same MLR
 - Leave market (MLR could be changed)
- Durational loss ratios (Lifetime LR pricing)
 - Disincentive to sell new products
 - High variability of impact by company



Actuaries Club of the Southwest – 2010 Spring Meeting

Exchanges

- Similar to MA Connector
- Will sell Qualified Health Plans
 - Bronze (60%) -> Platinum (90%) of “Typical” Employer Coverage
 - A carrier must sell at least 1 Silver, 1 Gold
- “The exchange will lower administrative costs... will lower premiums...by 7 to 10 percent” (Healthreform.gov)
 - What about higher benefits increasing cost?
 - What about No Pre-ex and GI
- Increased Portability, less job-lock, more turn-over



Actuaries Club of the Southwest – 2010 Spring Meeting

Review of Premium Increases

- What is “unreasonable”?
- What market segments? Same as MLR?
- Will there be a standard?
- Will the process be before the filing or anytime after?
 - Delays in approval could result in larger needed increases
- A flat percentage?
 - Experience variation by Company
 - Deductible leveraging
- Solvency issues



Actuaries Club of the Southwest – 2010 Spring Meeting

Review of Premium Increases

- WellPoint – Criticized for “unreasonable” rate increases
 - “The insurer recently withdrew that increase after California officials found it was based on “unreasonably high assumptions” about rising medical costs” - Kathleen Sebelius
 - “For too long, we have been held hostage to an insurance industry that jacks up premiums and drops coverage as they please.” – President Barack Obama
 - “Anthem Blue Cross withdraws 39% rate request, saving Californians” - Lita Epstein
 - “SmartSense falls below 70% putting it out of compliance. ...The remainder of the policies are still above 70%.” – David Axene
 - “Correcting for methodological errors this results in reduced rate increases of 14.5% - 15.2%, instead of the filed 25.4%.” – David Axene
- Wellmark BCBS filed for ~18% rate increase in Iowa
 - “The analysis completed by INS concludes that the rate revisions comply with Iowa law and are within the appropriate guidelines for approval.” - Susan Voss



Actuaries Club of the Southwest – 2010 Spring Meeting

What is Not Affected By Reform

- What is a “health insurance issuer” and what is “group or individual health insurance coverage” as defined by the ACA?
- HIPAA “Excepted Benefits”?
- What about stop-loss? What is the attachment point?



Actuaries Club of the Southwest – 2010 Spring Meeting

What is Not Affected By Reform

- All limited medical plans were considered “group health insurance plans”; plans that issued Letters of Creditable Coverage under HIPAA; plans identified as Limited Major Medical Plans...will be subject to these new regulations” – Fringe Benefit Group
- Will there be less product offerings in the market due to carriers decreasing benefits to “supplemental” levels?
- Dental, Vision, Cancer, Hospital Indemnity, Med Supp, DI



Actuaries Club of the Southwest – 2010 Spring Meeting

The Impact of Reform on the Cost of Health Care

- “Hidden Insurance Tax of more than \$1,000 ...to cover..the uninsured” – Healthcarereform.gov, Families USA
- How much will this be reduced if at all?
 - MA still seeing significant ER use
- What are the incentives for reduced utilization if higher benefits and higher subsidies?
- Will the addition of limited price disclosure help the average charge go down?



Actuaries Club of the Southwest – 2010 Spring Meeting

Cadillac Health Plan Tax

- “The original concept of the excise tax was to penalize employers with excessively rich health benefit plans” (Randall Abbott, Towers Watson)
- How does this relate to requiring richer benefits on the low end?
- “For about half of the industries examined, more than 7 out of 10 employers will have at least one plan that will exceed the excise tax threshold in 2018” – (Towers Watson - 2010 Health Care Cost Survey)



Actuaries Club of the Southwest – 2010 Spring Meeting

Retiree Health

- Phase out the Part D Donut Hole
- Frozen Medicare Payments / Reduced Benchmarks
 - Will increase retiree premiums



Actuaries Club of the Southwest – 2010 Spring Meeting

The Results of Massachusetts Reforms

- From Corrinne Hess, The Business Journal of Milwaukee
 - “Massachusetts has done a good job of getting its residents insured, but the program has been costly and access to doctors and increases in emergency room visits...still need to be addressed four years later.”
 - Prior Uninsured Rate – 6.4%
 - Post Uninsured Rate– 2.9% (majority being undocumented or illegal)
 - Employers have not dropped coverage to push employees into govt plans
 - Eers offers up from 72% to 78% (66% national)
 - The # of docs not accepting new patients increased to 40% from 30%



Actuaries Club of the Southwest – 2010 Spring Meeting

The Results of Massachusetts Reforms

- Wall Street Journal April 9th Opinion Piece
 - The Massachusetts Insurance Blackout
 - “Mr. Patrick...rejecting about 90% of the premium increases the state's insurers had asked regulators to approve...response to this ostensibly industry greed”
 - “Yet all of the major Massachusetts insurers are nonprofits. Three of largest four—Blue Cross Blue Shield, Tufts Health Plan and Fallon Community Health—posted operating losses in 2009.”
 - “This week Blue Cross Blue Shield reported a big uptick in short-term customers who ran up costs more than four times the average, only to drop the coverage within three months.”
 - “Harvard Pilgrim ...about 40% of its new enrollees stayed with it for fewer than five months and on average incurred costs about 600% higher than the company would have otherwise expected.
 - How well does MA serve as a proxy for other states?



Actuaries Club of the Southwest – 2010 Spring Meeting