



# US HEALTH CARE REFORM

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# Agenda

- Legislation enactment
- Current health care system in the US
- Highlights of health care reform
  - private sector
  - public programs
- Focus on health insurance industry impact
- Future state of healthcare delivery system



# Legislation Enactment

# Landmark Legislation Enacted March 2010

- PPACA - Patient Protection and Affordable Care Act, enacted March 23
- Amendments enacted March 30
- Provisions effective 2010
- Bulk of legislation including mandated coverage effective 2014



# Current Health Care System in the US

# Current Health Care System

- Mix of public and private funding and provision
- Government program covers 28% of US population:
  - Medicare covers over 65 and disabled
  - Medicaid covers indigent
  - Children Health Insurance Program (CHIP) covers low income children not qualified for Medicaid
  - Military personnel, retirees and dependents
- Private program covers 56% of US population:
  - predominantly employer coverage
  - individual insurance
- Government funds roughly 45% of health care spending

# Government Programs

- Medicare (Federal)
  - fee for service inpatient hospital; outpatient/physician services
  - managed care medical plans offered by health plans
  - managed care drug plans offered by health plans
- Medicaid/CHIP (Federal/State)
  - fee for service comprehensive medical coverage
  - managed care medical plans offered by health plans

# Private Health Care System

- Comprehensive medical coverage
- Mostly managed care : Hospital Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs)
- Network of hospitals, physicians, pharmacists etc
- Medical and pharmacy management
- Medical underwriting and rescissions applied in individual insurance
- Tax deduction for employers





# Highlights of Health Care Reform

# Highlights of Health Care Reform

- Cover additional 32 million Americans by 2019
- Cost USD\$940 billion (SGD\$1.3 trillion) over 10 years
- Maintain existing infrastructure
  - mix of private and public provisions and funding
  - insurance and group health plans reform
  - expansion of government programs
- Improve quality and efficiency
- Address health care workforce issues
- Establish voluntary long term care program
- Fund by tax changes and fees

# Reform is all about ACCESS – Impact on Private Sector

- Individual and employer mandates
- Insurance and group health plans reform
- Premium and cost sharing subsidies
- Health insurance exchange administered by states

# Insurance and Group Health Plans Reform – Individual and Employer Mandates

- Require every American to have health insurance
- Pay tax penalty- greater of flat amount or % of income
- Allow exemptions for financial hardship
- Assess fees on employers if not offering coverage, or if employee receives government subsidies
- Require employers (>200 employees) to automatically enroll employees

# Insurance and Group Insurance Reform

## – Policy and Benefits

- Require individual insurance
  - guarantee issue
  - no rescissions and pre-existing conditions
- Cover preventive care services with no cost sharing
- Provide “Essential Health Benefits”
- Define 4 levels of Coverage : Platinum, Gold, Silver & Bronze
- Remove annual limits on deductibles and cost sharing

# Insurance and Group Health Plans Reform

- Minimum loss ratios : 80% for individual and small group; 85% for large group
- Premium rebates to consumers if minimum loss ratio not met
- Rating variables: area, age, tobacco use, individual or more than one individual
- Rating restrictions: 3 to 1 on age; 1.5 to 1 on tobacco
- Same premium rates whether offered through Exchange, individually or through an agent
- Risk adjustments

# Premium and Cost Sharing Subsidies

- Eligible for subsidies if satisfy income limits or if employee share of premium exceeds 9.5% of premium
- Premium subsidies if incomes between 133%-400% Federal Poverty Level (133% FPL = USD\$29,260)
- Cost sharing subsidies if incomes between 100% to 400% FPL
- Premium subsidies to small employers (<25 employees and annual wage <\$50,000)

# Health Insurance Exchange - Offers Consumer Choices and Competition

- Offer qualified health plans to individuals and small employers
- Provide standardized information through internet portal – standardize health benefits format and calculate cost of coverage
- Rate plans based on relative quality and price
- Track quality improvement activities implemented by health plans
- Enroll individuals who are eligible for Medicaid/CHIP



# Expand Public Programs – Medicaid/CHIP and Exchange; Medicare

- Cover mostly those who were previously uninsured
- Expand Medicaid to all Americans with income up to 133% of FPL
- Provide additional federal subsidies to states
- Remove stigma by providing subsidies and enrolling through the exchange
- Improve access through increased payments to Medicaid primary care physicians
- Increase drug coverage to Medicare enrollees

# Improve Quality and Efficiency through Medicare

- Transform health care delivery system
- Improve Medicare for patients and providers
- Establish independent payment advisory board
- Improve health care quality
- Reduce payments to Medicare managed care plans

# Transform Health Care Delivery System under Medicare

- Link payments to quality income
  - value based purchasing programs
  - physician quality reporting initiative
  - quality reporting on institution providers
- Develop national strategy to improve health care quality
- Develop new patient care model
  - accountable care organizations to share savings
  - bundled payments
  - medical homes

# Long Term Care

- Establishes a new voluntary federal insurance program
  - Community Living Assistance Services and Support (CLASS)
- Provides cash benefit to participants unable to perform 2 or 3 activities of daily living or has substantial cognitive impairment
- Financed by participant premium, no federal subsidy
- Meet modest work requirements during 5 year vesting period
- Attract adverse selection and pose significant risk of failure, assessed by office of the actuary

# Funding through Tax Revenue and Fees

- New annual fees on health insurance sector
- New fees on pharmaceutical and medical device manufacturing
- Penalty payments on uninsured individuals and employers
- Medicare tax increase on high income individuals
- Excise tax on high cost employer sponsored plans
- Elimination of employers Part D tax deductions
- Payment reduction to Medicare managed care plans
- Other

# The Good and The Bad of Current Legislation

## The Good

- Cover additional 32 million Americans
- Exchange simplifies process of obtaining coverage; stimulates competition; ease of comparing insurers by quality and price
- Promotes quality and efficiency

## The Bad

- 20 million Americans remain uninsured after spending USD\$940 billion
- Insufficient teeth on cost containment
- Weak mandates with rating restrictions – young people opt out, increase premium
- CLASS not sustainable



# Focus Impact of Health Care Reform on Insurance Industry

# Impact on Health Insurance Industry – Near Term

- Passing the legislation is just the beginning, writing of the regulations has started
- Margin compression begins
  - minimum loss ratio requirements starting 2011
  - “unreasonable rate increase” scrutiny by federal and state agencies
- Young adults to stay on parents coverage until age 26
- Temporary reinsurance subsidies for early retirees
- Temporary high risk insurance pool



# Impact on Health Insurance Industry – Long Term

- Complicated legislations will result in unintended consequences; create winners and losers
- Margin compression on insurers continues
- Additional regulatory compliance, federal and state
- Insurers need to focus on quality and efficiency in addition to margin and market share
- Weeding out inefficient insurers
- Potential shifting from employer offered coverage to individual insurance



# **Future State of Health Care Delivery System – Consumer Perspectives**

# Changes in Health Care Delivery?

Envision an improved future state:

- More engaging experience with physicians and care providers – “patient-centered” care
- No hospital infected diseases; lower hospital readmission rate; no medication error; no unintended drug interaction
- Health information at your finger tips
  - hospital and physician ratings on performance and outcome
  - best practice treatment standards and communication of treatment choices