Health Care Reform

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Health Practice Council
American Academy of Actuaries

Chicago Actuarial Association
Tuesday, March 9, 2010
Agenda

- Current status of health reform legislation
- Comparison of selected provisions in the House and Senate bills
  - Academy HPC perspective on certain provisions
- Academy involvement during the health reform process
Current Status of Health Reform Legislation
House- and Senate-Passed Health Reform Legislation

- **Affordable Health Care for America Act (H.R. 3962)**
  - Passed the House on November 7, 2009
  - Cost (2010-2019): $891 billion
  - Decrease in number uninsured in 2019 (compared to current law): 36 million

- **Patient Protection and Affordable Care Act (H.R. 3590)**
  - Passed the Senate on December 24, 2009
  - Cost (2010-2019): $614 billion
  - Decrease in number uninsured in 2019 (compared to current law): 31 million
General Approach of Reform Legislation

- Market reforms
  - Guaranteed issue, no pre-ex condition limitations, rating limitations, minimum benefit requirements, etc.
- Individual mandate
- Subsidies for low-income individuals and families
- Medicaid expansions
- Creation of insurance exchanges
- Some degree of employer responsibility
- Cost containment and quality provisions
Current Status of Reform Legislation

- Senate Bill
- Two House votes
  - Pass Senate Bill
  - Pass a “fix” + add-ons with Reconciliation
- Fix
  - Hour by hour
- Reconciliation
  - Parliamentary procedure – save or spend $
  - Requires creativity, may not do all
  - Power to the parliamentarian (or VP)
  - Senate need 50 votes + VP
“Fix” and Add-Ons

- Eliminate Nebraska FMAP, additional Federal funds Medicaid
- Close Part D “donut hole”
- Cadillac tax thresholds up and delayed
- Subsidies shifted to lower and moderate incomes
- Provisions to fight fraud, waste and abuse in Medicare and Medicaid
“Fix” and Add-Ons

- Federal rate regulation
- Slight adjustment to mandate penalty
- Delay in Insurer fees, 2014 and back loaded
- Employer free rider penalty upped
Comparison of Selected Provisions
# Comparison of Selected Provisions

<table>
<thead>
<tr>
<th></th>
<th>HR 3962 (House)</th>
<th>HR 3590 (Senate)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope</strong></td>
<td>Individual market and groups of all sizes (not all provisions apply to all sizes or to self-funded)</td>
<td>Applies to individual and small group defined as 1-100, with state option to define as 1-50 until 1/1/2016 (some provisions apply to all groups, including self-funded)</td>
</tr>
<tr>
<td><strong>Pooling of Individual and Group</strong></td>
<td>All individual and fully-insured group must be pooled</td>
<td>Requires state to include self-employed and up to 100. If large employer purchases through Exchange (2017) rating rules extend. Separate pools for individual and small group, merger permitted.</td>
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<tr>
<td><strong>Market Reform</strong></td>
<td>Age (2:1), permitted or Exchange specified area, family GI, modified CR Individual, small and large group</td>
<td>Age (3:1), standard area, family tobacco (1.5:1) GI, modified CR Individual and small group</td>
</tr>
<tr>
<td><strong>Individual Mandate</strong></td>
<td>Penalty: 2.5% of AGI</td>
<td>Penalty: Greater of flat dollar amount ($95 in 2014, $495 in 2015, $750 in 2016) or percent of household income (0.5% in 2014, 1.0% in 2015, 2.0% thereafter)</td>
</tr>
<tr>
<td><strong>Employer Responsibility</strong></td>
<td>Penalty: 8% of payroll (must contribute 72.5% for individual and 65% for family) Penalty is reduced for smallers with annual payroll less than $750,000</td>
<td>Assessment: $750 per FTE (er doesn’t offer coverage and at least one FTE receives a premium tax credit); lesser of $3000 or $750 per FTE (er offers coverage but at least one FTE receives a premium tax credit)</td>
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<td><strong>Grandfather Provisions</strong></td>
<td>Individual: indefinite as it exists on Dec. 31, 2012</td>
<td>Individual and group: indefinite as of date of enactment</td>
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<tr>
<td></td>
<td>Group: 5-year grace period beginning Dec. 31, 2012</td>
<td></td>
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<tr>
<td><strong>Risk-Sharing Mechanisms</strong></td>
<td>Temporary, national high risk pool 1/1/2010 to Exchange Risk adjustment (Exchange participating plans)</td>
<td>Temporary, national high risk pool</td>
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<tr>
<td></td>
<td>For individual and small group markets: Risk adjustment (excludes grandfathered)</td>
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<tr>
<td></td>
<td>Reinsurance: temporary (2014-16)*</td>
<td></td>
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<tr>
<td></td>
<td>Risk Corridors: temporary (2014-16)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*$25B assessment, individual only</td>
<td></td>
</tr>
<tr>
<td><strong>Medical Loss Ratios</strong></td>
<td>85% for individual*, small group, large group, Medicaid, CHIP and Medicare Advantage (sunsets with exchange)</td>
<td>85% for large groups; 80% for small group and individual* markets</td>
</tr>
<tr>
<td></td>
<td>*Secretary may adjust if destabilizes market</td>
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<tr>
<td></td>
<td>Up to 400% of FPL (cost-sharing subsidies and lower OOP limits up to 400% of FPL)</td>
<td>Up to 400% of FPL (cost-sharing subsidies up to 200% of FPL)</td>
</tr>
<tr>
<td>Premium Subsidies to Employers</td>
<td>Small ers &lt; 25 FTE Ees annual wage &lt; $40,000</td>
<td>Small ers &lt; 25 FTE Ees annual wage &lt; $50,000</td>
</tr>
<tr>
<td></td>
<td>Temp reinsurance program for ers providing coverage to retirees over age 55 (80% between $15,000 and $90,000)</td>
<td>Temp reinsurance program for ers providing coverage to retirees over age 55 (80% between $15,000 and $90,000)</td>
</tr>
<tr>
<td>Exchanges</td>
<td>National</td>
<td>State-based</td>
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<th>Creation of New Health Insurance Plans</th>
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<td>Public plan</td>
<td>Health insurance co-ops</td>
<td>Health insurance co-ops</td>
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<td>Health insurance co-ops</td>
<td>Multi-state plans</td>
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<th>Benefit Tiers</th>
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<tr>
<td>Essential Benefits</td>
<td>Basic: 70% of benefit costs</td>
<td>Bronze: 60% of benefit costs</td>
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<tr>
<td></td>
<td>Enhanced: 85% of benefit costs</td>
<td>Silver: 70% of benefit costs</td>
</tr>
<tr>
<td></td>
<td>Premium: 95% of benefit costs</td>
<td>Gold: 80% of benefit costs</td>
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<td></td>
<td>Premium +: provides additional benefits</td>
<td>Platinum: 90% of benefit costs</td>
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<td></td>
<td>Max OOP tied to income level</td>
<td>Catastrophic: up to age 30 or exempt from mandate</td>
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<td>Max OOP tied to income level</td>
<td></td>
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| Expansion of Public Programs            | Medicaid: up to 150% FPL | Medicaid: up to 133% FPL |
|                                        | CHIP: exchange in 2014 | CHIP: maintain current levels |
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<td>Medicare Advantage</td>
<td>Phase down to 100% FFS</td>
<td>Competitive bidding</td>
</tr>
<tr>
<td>Financing</td>
<td>5.4% surcharge on families with incomes above $1m and individuals above $500,000</td>
<td>40% excise tax on employer-sponsored health plans that exceed $8500* for individual coverage and $23,000* for family coverage. Exceptions for retirees over 55, high-risk occupations and high-cost states</td>
</tr>
<tr>
<td>CLASS Act</td>
<td>Voluntary LTC program; auto enrollment with opt-out provision; 5-year vesting period; eligibility limited to working adults and non-working spouses</td>
<td>Voluntary LTC program; auto enrollment with opt-out provision; 5-year vesting period; eligibility limited to working adults; nominal premium for students and individuals with income below FPL</td>
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<td><strong>Health Insurer Provider Tax</strong></td>
<td>No provision</td>
<td>Annual excise tax based on relative net premium market share starting in 2011 based on 2010</td>
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<tr>
<td></td>
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<td>• 2011 $2B</td>
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<td></td>
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<td>• 2012 $4B</td>
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<td></td>
<td></td>
<td>• 2013 $7B</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 2014, 2015, 2016 $9B</td>
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<tr>
<td></td>
<td></td>
<td>• 2017 and after $10B</td>
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<td></td>
<td></td>
<td>Premiums &lt;$25M not taken into account; $25 M to $50M at 50%; over $50M 100%</td>
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<tr>
<td></td>
<td></td>
<td>Excludes disability, accident, indemnity, specific disease, long term care and Medicare supplement</td>
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<tr>
<td></td>
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<td>Other technical exemptions</td>
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Select Cost/Quality Provisions

- Develop a Medicare pilot program to evaluate bundled payments for acute, inpatient hospital, and post-acute services
- Create a hospital value-based purchasing program in Medicare (Senate)
- Conduct Medicare pilot/demonstration projects to test ACO and patient-centered medical home models
- Create a center/institute to conduct comparative effectiveness research
- Improve hospital reporting requirements (e.g., readmission rates)
- Establish a center to identify, develop and disseminate best practices for improving health care quality
- Grants to small employers that establish wellness programs
- Allow employers to offer employees rewards of up to 30% the cost of coverage for participation in a wellness program (Senate)
- Prohibit insurers from charging cost-sharing for preventive services in Medicare/Medicaid
Select Cost/Quality Provisions

- Restructure MA payments by phasing to 100% FFS (House) or through competitive bidding (Senate)
- Reduce Medicaid DSH payments
- Health information technology
- Increase the Medicaid drug rebate percentage and extend Rx rebate to Medicaid managed care plans
- Freeze the threshold for Part B premiums through 2019 and reduce Part D subsidy for those with incomes above $85,000/$170,000 (Senate)
- Eliminate fraud, waste and abuse in public programs
- Reduce payments for preventable hospital readmissions in Medicare
Academy Involvement
Publications

- *Critical Issues in Health Reform*—a series of 2-4 page papers providing an actuarial perspective on various health reform topics:
  - Actuarial equivalence
  - Administrative expenses
  - Community Living Assistance Services and Supports (CLASS) Act
  - Gender considerations in a voluntary individual health insurance market
  - Health insurance cooperatives
  - Individual mandate
  - Market reform principles
  - Merging the small group and individual markets
  - Minimum loss ratios
  - Public plan option
  - Risk pooling
  - State-level impact and state characteristics
  - Transitioning into new markets

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Publications (cont.)

- Issue briefs and monographs
  - Risk classification in the voluntary health insurance market
  - A primer on the individual market
  - Drivers of and options to address health spending growth
  - Impact of consumer-directed health plans
  - Value-based insurance design
  - Comparative effectiveness research
  - Medicare Advantage payment reform
Collaborative Projects with the SOA

- Excise tax on high-cost employer plans
  - Provided insights on how to better target and administer the tax
  - Projected revenue from an excise tax

- Start-up capital costs for health care co-ops and a public plan
  - Highlighted the range of potential capital needs using different scenarios

- Implications of the CLASS Act
  - Projected premiums under the CLASS Act
  - Warned of the threat to plan solvency and provided insights on how to reduce this threat

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Input to Congress

- Capitol Hill visits
- Responded to inquiries from majority and minority staff on the following committees:
  - Senate HELP
  - Senate Finance
  - Senate Budget
  - Senate Small Business and Entrepreneurship
  - House Energy and Commerce
  - House Small Business
- Responded to requests from congressional staff in personal offices
- Meetings and discussions with CMS, CBO, HHS, CRS, GAO
Input to Congress (cont.)

- Written testimony to congressional hearings regarding the keys to viable reform
- Comment letters to congressional leadership
  - Letter to House/Senate leadership outlining three criteria to viable reform and discussing whether/how the House/Senate bill conforms with these criteria
  - Letter to House and Senate leadership reconciling aspects of House- and Senate-passed legislation
  - Letter to Senators Harkin and Baucus regarding grandfathering provisions in the Senate bill
- Academy hill briefings and webcasts for congressional staff
- Presentations at “off the record” forums for congressional staff
- Meetings with congressional staff/response to congressional requests
Outreach to and Collaboration with Other Organizations

- Presentations and testimony at meetings of other organizations
  - National Association of Insurance Commissioners (NAIC)
  - National Conference of Insurance Legislators (NCOIL)
  - National Conference of State Legislatures (NCSL)

- Presentations at briefings for congressional staff organized by other organizations
  - Alliance for Health Reform
  - National Health Policy Forum

- Outreach to other health policy organizations (e.g., Kaiser Family Foundation, AARP, Concord Coalition)
Media Outreach

- Academy work on health reform-related issues has been featured in numerous media outlets, including:
  - Magazines—Time, Newsweek, Kiplinger’s Personal Finance, Fortune, The New Republic
  - Television and radio—Fox Business, PBS Nightly Business Report, National Public Radio
  - Trade publications—National Underwriter, Health Plan Week, BNA, The Hill
  - Blogs and other on-line media