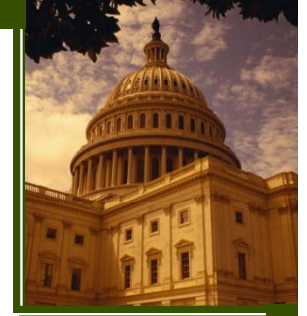


Health Care Reform



Karl Madrecki

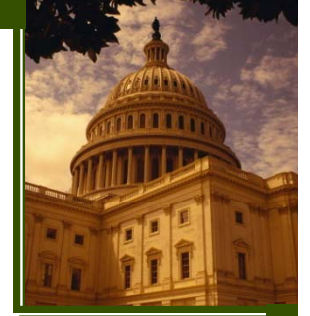
Health Practice Council

American Academy of Actuaries

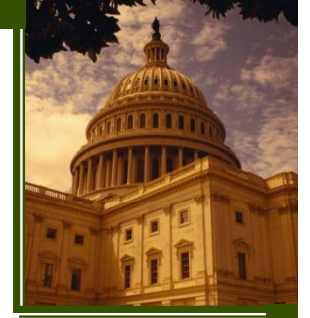
Chicago Actuarial Association

Tuesday, March 9, 2010

Agenda

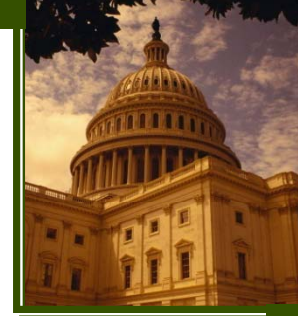


- Current status of health reform legislation
- Comparison of selected provisions in the House and Senate bills
 - Academy HPC perspective on certain provisions
- Academy involvement during the health reform process



Current Status of Health Reform Legislation

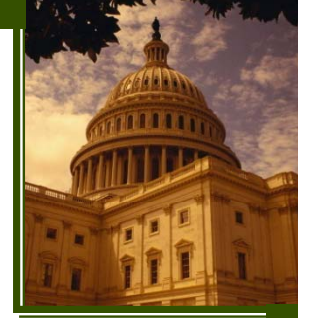
House- and Senate-Passed Health Reform Legislation



- Affordable Health Care for America Act (H.R. 3962)
 - Passed the House on November 7, 2009
 - Cost (2010-2019): \$891 billion
 - Net cost (2010-2019): \$138 billion deficit reduction
 - Decrease in number uninsured in 2019 (compared to current law): 36 million

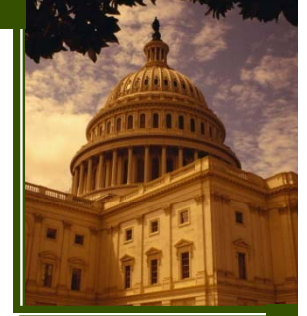
- Patient Protection and Affordable Care Act (H.R. 3590)
 - Passed the Senate on December 24, 2009
 - Cost (2010-2019): \$614 billion
 - Net cost (2010-2019): \$132 billion deficit reduction
 - Decrease in number uninsured in 2019 (compared to current law): 31 million

General Approach of Reform Legislation



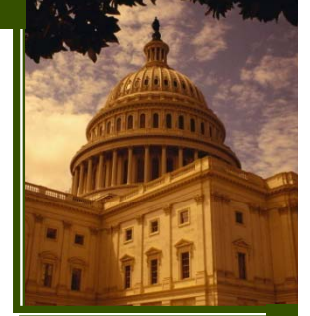
- Market reforms
 - Guaranteed issue, no pre-ex condition limitations, rating limitations, minimum benefit requirements, etc.
- Individual mandate
- Subsidies for low-income individuals and families
- Medicaid expansions
- Creation of insurance exchanges
- Some degree of employer responsibility
- Cost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

Current Status of Reform Legislation



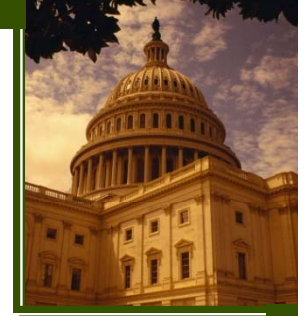
- Senate Bill
- Two House votes
 - Pass Senate Bill
 - Pass a “fix” + add-ons with Reconciliation
- Fix
 - Hour by hour
- Reconciliation
 - Parliamentary procedure – save or spend \$
 - Requires creativity, may not do all
 - Power to the parliamentarian (or VP)
 - Senate need 50 votes + VP

“Fix” and Add-Ons

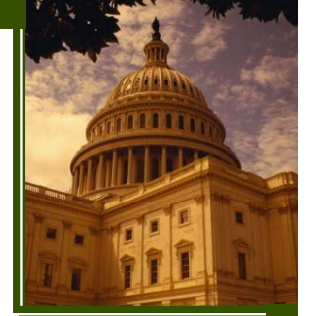


- Eliminate Nebraska FMAP, additional Federal funds Medicaid
- Close Part D “donut hole”
- Cadillac tax thresholds up and delayed
- Subsidies shifted to lower and moderate incomes
- Provisions to fight fraud, waste and abuse in Medicare and Medicaid

“Fix” and Add-Ons

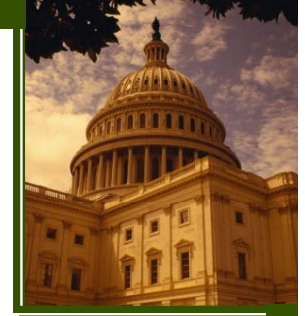


- Federal rate regulation
- Slight adjustment to mandate penalty
- Delay in Insurer fees, 2014 and back loaded
- Employer free rider penalty upped



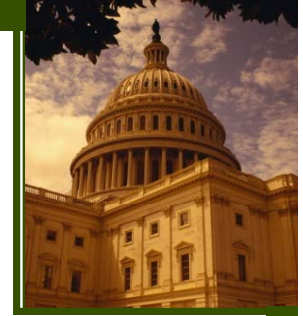
Comparison of Selected Provisions

Comparison of Selected Provisions



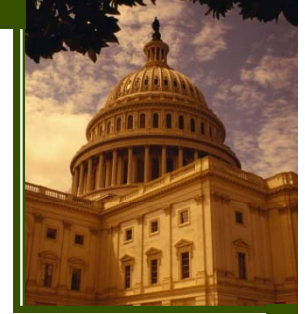
	HR 3962 (House)	HR 3590 (Senate)
Scope	Individual market and groups of all sizes (not all provisions apply to all sizes or to self-funded)	Applies to individual and small group defined as 1-100, with state option to define as 1-50 until 1/1/2016 (some provisions apply to all groups, including self-funded)
Pooling of Individual and Group	All individual and fully-insured group must be pooled	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.

Comparison of Selected Provisions



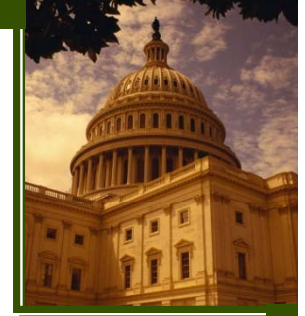
	HR 3962 (House)	HR 3590 (Senate)
Market Reform	Age (2:1), permitted or Exchange specified area, family GI, modified CR Individual, small and large group	Age (3:1), standard area, family, tobacco (1.5:1) GI, modified CR Individual and small group
Individual Mandate	Penalty: 2.5% of AGI	Penalty: Greater 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)
Employer Responsibility	Penalty: 8% of payroll (must contribute 72.5% for individual and 65% for family) Penalty is reduced for small ers with annual payroll less than \$750,000	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)

Comparison of Selected Provisions



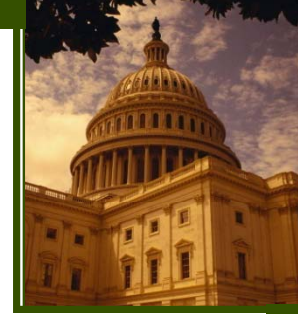
	HR 3962 (House)	HR 3590 (Senate)
Grandfather Provisions	Individual: indefinite as it exists on Dec. 31, 2012 Group: 5-year grace period beginning Dec. 31, 2012	Individual and group: indefinite as of date of enactment
Risk-Sharing Mechanisms	Temporary, national high risk pool 1/1/2010 to Exchange Risk adjustment (Exchange participating plans)	Temporary, national high risk pool For individual and small group markets: Risk adjustment (excludes grandfathered) Reinsurance: temporary (2014-16)* Risk Corridors: temporary (2014-16) *\$25B assessment, individual only
Medical Loss Ratios	85% for individual*, small group, large group, Medicaid, CHIP and Medicare Advantage (sunsets with exchange) *Secretary may adjust if destabilizes market	85% for large groups; 80% for small group and individual* markets *Secretary may adjust if destabilizes market

Comparison of Selected Provisions



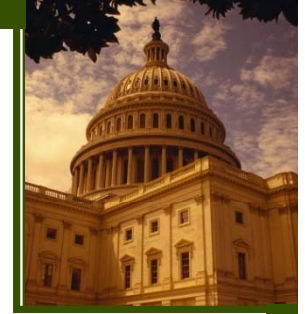
	HR 3962 (House)	HR 3590 (Senate)
Premium Subsidies	Up to 400% of FPL (cost-sharing subsidies and lower OOP limits up to 400% of FPL)	Up to 400% of FPL (cost-sharing subsidies up to 200% of FPL)
Premium Subsidies to Employers	Small ers < 25 FTE Ees annual wage < \$40,000 Temp reinsurance program for ers providing coverage to retirees over age 55 (80% between \$15,000 and \$90,000)	Small ers < 25 FTE Ees annual wage < \$50,000 Temp reinsurance program for ers providing coverage to retirees over age 55 (80% between \$15,000 and \$90,000)
Exchanges	National	State-based

Comparison of Selected Provisions



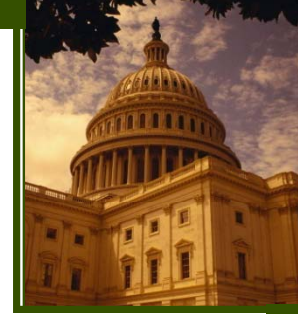
	HR 3962 (House)	HR 3590 (Senate)
Creation of New Health Insurance Plans	Public plan Health insurance co-ops	Health insurance co-ops Multi-state plans
Benefit Tiers Essential Benefits As Defined	Basic: 70% of benefit costs Enhanced: 85% of benefit costs Premium: 95% of benefit costs Premium +: provides additional benefits Max OOP tied to income level	Bronze: 60% of benefit costs Silver: 70% of benefit costs Gold: 80% of benefit costs Platinum: 90% of benefit costs Catastrophic: up to age 30 or exempt from mandate Max OOP tied to income level
Expansion of Public Programs	Medicaid: up to 150% FPL CHIP: exchange in 2014	Medicaid: up to 133% FPL CHIP: maintain current levels

Comparison of Selected Provisions



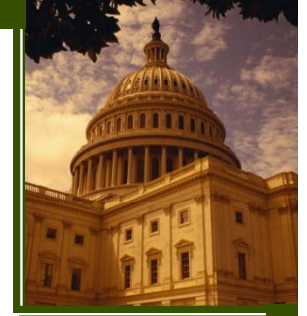
	HR 3962 (House)	HR 3590 (Senate)
Medicare Advantage	Phase down to 100% FFS	Competitive bidding
Financing	5.4% surcharge on families with incomes above \$1m and individuals above \$500,000	40% excise tax on employer-sponsored health plans that exceed \$8500* for individual coverage and \$23,000* for family coverage. Exceptions for retirees over 55, high-risk occupations and high-cost states
CLASS Act	Voluntary LTC program; auto enrollment with opt-out provision; 5-year vesting period; eligibility limited to working adults and non-working spouses	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

Comparison of Selected Provisions



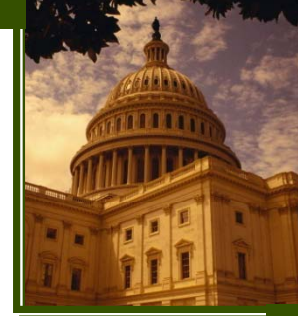
	HR 3962 (House)	HR 3590 (Senate)
Health Insurer Provider Tax	No provision	<p>Annual excise tax based on relative net premium market share starting in 2011 based on 2010</p> <ul style="list-style-type: none"> •2011 \$2B •2012 \$4B •2013 \$7B •2014, 2015, 2016 \$9B •2017 and after \$10B <p>Premiums <\$25M not taken into account; \$25 M to \$50M at 50%; over \$50M 100%</p> <p>Excludes disability, accident, indemnity, specific disease, long term care and Medicare supplement</p> <p>Other technical exemptions</p>

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

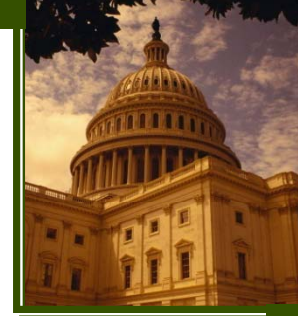


- Restructure MA payments by phasing to 100%FFS (House) or through competitive bidding (Senate)
- Reduce Medicaid DSH payments
- Health information technology
- Increase the Medicaid drug rebate percentage and extend Rx rebate to Medicaid managed care plans
- Freeze the threshold for Part B premiums 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



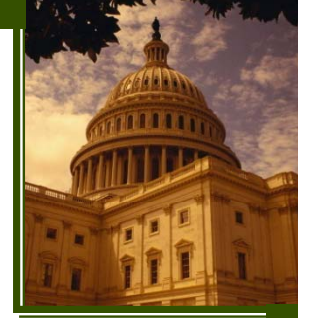
Academy Involvement

Publications



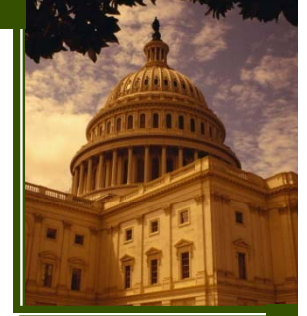
- *Critical Issues in Health Reform*—a series of 2-4 page papers providing an actuarial perspective on various health reform topics:
 - Actuarial equivalence
 - Administrative expenses
 - Community Living Assistance Services and Supports (CLASS) Act
 - Gender considerations in a voluntary individual 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

Publications (cont.)



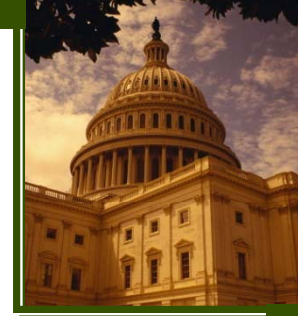
- Issue briefs and monographs
 - Risk classification in the voluntary health insurance market
 - A primer on the individual market
 - Drivers of and options to address health spending growth
 - Impact of consumer-directed health plans
 - Value-based insurance design
 - Comparative effectiveness research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

Collaborative Projects with the SOA



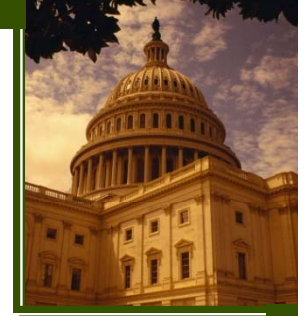
- Excise tax on high-cost employer plans
 - Provided insights on how to better target and administer the tax
 - Projected revenue from an excise tax
- Start-up capital costs for health care co-ops and a public plan
 - Highlighted the range of potential capital needs using different scenarios
- Implications 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

Input to Congress



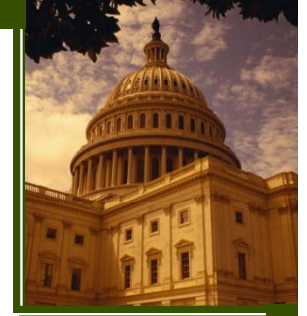
- Capitol Hill visits
- Responded to inquiries from majority and minority staff on the following committees:
 - Senate HELP
 - Senate Finance
 - Senate Budget
 - Senate Small Business and Entrepreneurship
 - House Energy and Commerce
 - House Small Business
- Responded to requests from congressional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

Input to Congress (cont.)



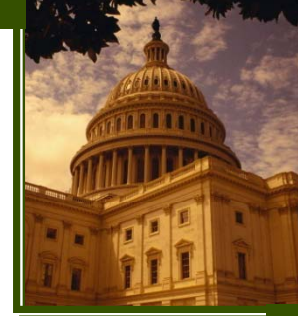
- Written testimony to congressional hearings regarding the keys to viable reform
- Comment letters to congressional leadership
 - Letter to House/Senate leadership outlining three criteria to viable reform and discussing whether/how the House/Senate bill conforms with these criteria
 - Letter to House 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:
 - Newspapers—New York Times, Washington Post, USA Today, Wall Street Journal, Investor’s Business Daily, Los Angeles Times, San Francisco Chronicle, Chicago Tribune
 - 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