Healthcare Reform and Exchange Impacts

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Agenda

- Exchange Overview
- Concept versus Reality
- Decision Points for State Government and Washington State
- Premera Exchange Activity
- Market Impacts
- Cost Impacts
- Impacts to Insurers

What are Exchanges?

A new marketplace in 2014 to provide access and transparency for consumers

- Individuals and Small Groups can purchase coverage and access premium and cost sharing subsidies (Individuals) and tax credits (Small Groups)
- Designed and operated by the states
  - Federal Exchange is default in absence of state Exchange
- Funding for Exchange operations
  - Federal government pays for initial implementation and first year of operation
  - Effective 1/1/2015, states will be required to determine funding for Exchanges

What are Exchanges?

Offer “Qualified Health Plans” with defined actuarial value thresholds for “Essential Health Benefits”

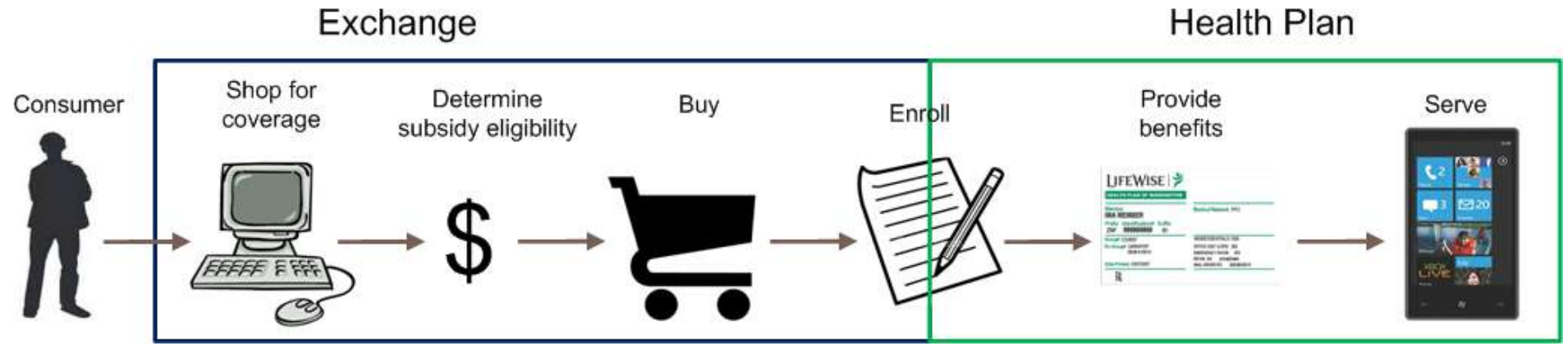
- Products will be relative to a 100% product where there is no cost sharing for the member for “Essential Health Benefits”

Metallic Plans	Actuarial Value
Bronze	60%
Silver	70%
Gold	80%
Platinum	90%

- Insurers must sell metallic plans and cannot offer products with lower than Bronze

Concept: Intended Operation

Provide front-end shopping experience, matching consumers with "Qualified Health Plans"



- "No wrong door" concept
  - Must enroll applicants eligible for Medicaid and Children's Health Insurance Program (CHIP) in those programs

Reality: Actual Operation

Actual operations will be challenging; many unanswered questions remain

Subsidy Administration

- How will the multifaceted subsidy determination and reporting to the Health Plans by the Exchange and/or Treasury work?
- Will the Exchange or Health Plan handle reconciliation of subsidy payments with member payments?

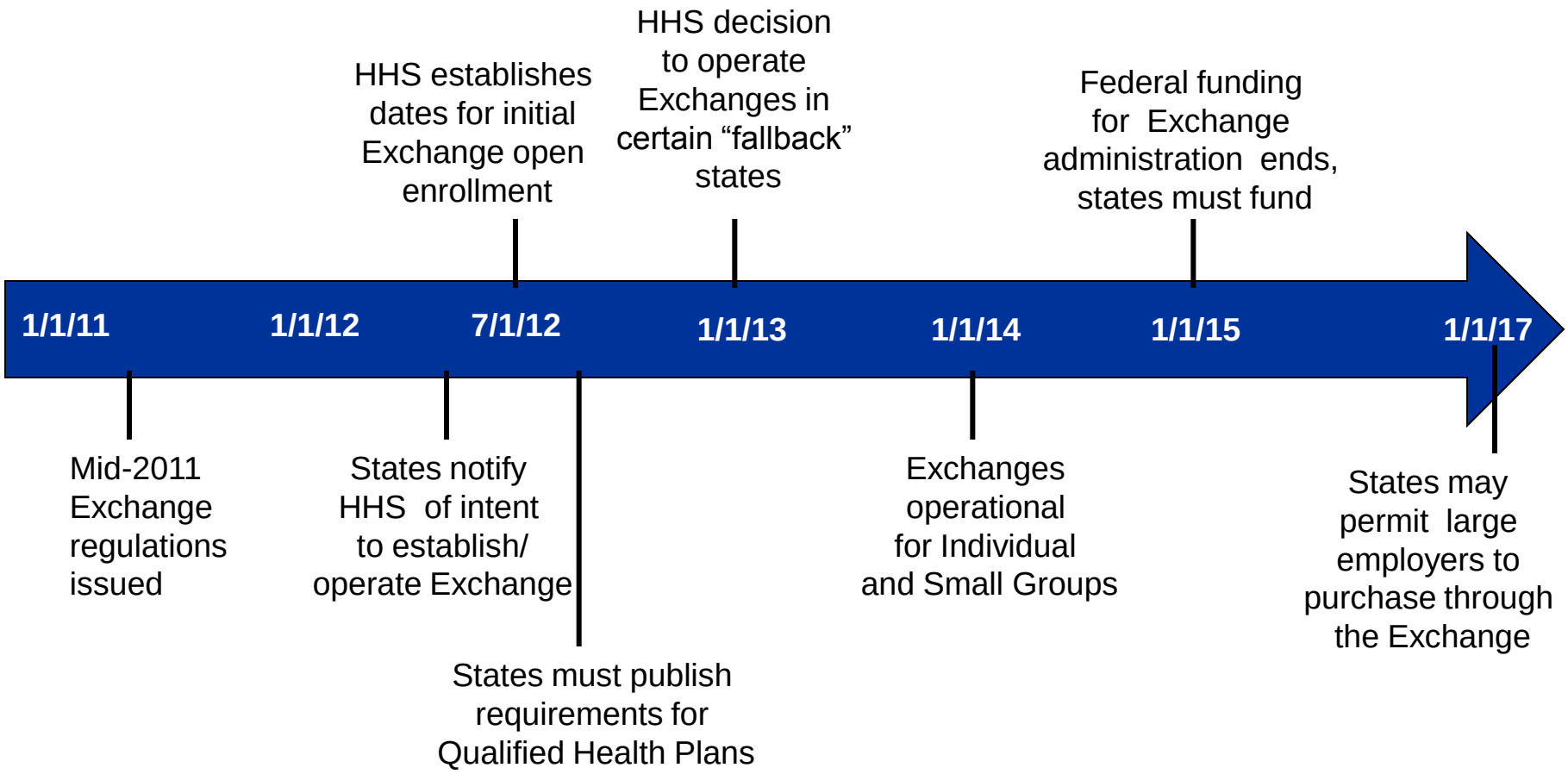
Premium Administration

- Will the Exchange or the Health Plan aggregate all subsidies and premium contributions?
- How will the states fund mandates that are not included in Essential Health Benefits?

Customer Service to Member

- Will the Exchange provide customer service?
- Who will respond to questions regarding eligibility and premium status with payments coming from multiple sources?

Potential Timeline for Exchanges



Decision Points for State Governments

States are currently formulating approaches on major decision points for their Exchange in 2011 or 2012 legislation

- **Participation:** Allow all health plans that qualify or limit competition to a subset of “Qualified Health Plans”?
- **Risk Pools:** Merge Individual and Small Group risk pools or maintain them separately?
- **High Risk Pools:** Retain or eliminate high risk pools?
- **Eligibility:** Open Exchange to small groups with 1-50 employees or 1-100 employees?
- **Accreditation:** Specify accrediting agency or give Health Plans flexibility to choose?
- **Model:** State-specific, regional or federal Exchange?

Washington State Exchange

Governor signed SB 5445 establishing Exchange on May 11, 2011

- Establishes Exchange as public-private partnership, separate from state
- 9 member Governing Board appointed by Governor by Dec 15, 2011
  - 8 members appointed from lists submitted by legislative caucuses; 4 Republican and 4 Democratic
  - Chair is non-voting except in case of tie – Governor to appoint
  - HCA and OIC are non-voting ex-officio board members
- Policy Options Report from HCA in collaboration with Joint Select Legislative Committee and Exchange Board due Jan 1, 2012 to Legislature and Governor
- Exchange Board oversight starting March 1, 2012

Premera Exchange Activity

Business Impacts and Public Policy

- Identifying business impacts & developing strategies
- Identifying potential issues or gaps in current system and administrative capabilities for interfacing with Exchanges, Treasury, members and groups
- Participating on national & state work groups
- Providing comments to state and federal administrations, legislators and agencies

Market Impacts

Impacts to Large Employers

- Penalties
  - For employer, if employee qualifies for and obtains subsidy in Exchange then penalty applies
  - Employees qualified for Exchange subsidies if either or both of these are true:
    - Employer does not provide “minimum essential coverage”
    - Employer coverage provided would cost employee > 9.5% of household income

Will the health status of the employees going to the Exchange differ from those remaining on group coverage?

Impacts to Individual Market

Individual market is predicted to change and grow significantly

- Subsidies offered exclusively through the Exchange will be primary driver of Individual market membership growth
- How employers react to Exchange availability for their employees will be a major driver
  - Whether and how many small employers continue to offer benefits is unknown
- Combination of how well the Exchange functions will also impact membership growth in Exchanges
- Members who straddle the 133% federal poverty level threshold will bounce between Medicaid and the Individual market eligibility
  - February 2011 Health Affairs study found that 35% of adults in their sample would have experienced a change in eligibility within 6 months, and 50% within 1 year; 24% would have experienced at least 2 eligibility changes in 1 year

Market Predictions Vary Greatly

Especially in the Individual market; individual market covers over 14 million people today

Predicted Increase in Individual Market for 2014[1]

	(millions)	(% Growth)[2]
CMS	2.7	15%
Congressional Budget Office, U.S. Congress, Washington, DC 20515	5.4	31%
BARCLAYS	7.3	42%
OLIVER WYMAN	9.3	53%
booz&co.	9.6	55%
McKinsey&Company	15.4 – 57.1	88% - 326%

Notes: (1) Illustration reflects national forecast
(2) % growth represents changes between 2013 and 2014

Non-Exchange Market

Along with an Exchange, non Exchange-based market is allowed

- Purchaser outside the Exchange is not eligible for subsidy or tax credit
- Consistent rules apply inside and outside the Exchange
  - Products must meet “Essential Health Benefits Package” levels
  - For rating purposes, pools outside are merged with the Exchange pool
  - Rates and rating rules
  - Participation requirements, enrollment rules and open enrollment periods

Viability of Individual Market

Future stability of the market remains unclear

- Weak mandate is not a strong incentive for consumers to maintain coverage
- Mechanism to prevent members from jumping in and out of coverage is essential to maintaining viable risk pools
  - What happens to markets outside the open enrollment period?
- Subsidies will insulate consumers from cost of care and may encourage utilization
- Inability to collect health information will make it more difficult to triage members into appropriate care management programs
- High risk pools may be eliminated and significantly increase costs in the individual pool

Cost Impacts

Reform and Costs

"Growth in spending on health care programs remains the central fiscal challenge. In CBO's judgment, the health care legislation enacted earlier this year made a dent in the problem, but did not substantially diminish that challenge."

Director Douglas Elmendorf, Congressional Budget Office

July 1, 2010

Impacts of Reform on Premiums

Reform will increase access to coverage, but changes to benefit plans and new taxes and fees will drive costs higher

Near Term Provisions (2010)
No dollar lifetime maximums
Restrictions on annual limits
Preventive care with no cost sharing
No pre-existing condition exclusions for enrollees under age 19
Dependent age extension to age 26

2014 Provisions
Mandated “Essential Health Benefit packages”
Guaranteed issue with weak individual mandate
Adjusted community rating
Insurer fee

Washington New Individual Plans

2 - 6% Rate Impact → **↑ ? Rate Impact**

Impacts to Insurers

Significant impacts for insurers

- **Medical loss ratio requirements and rebates**
  - Carriers must meet minimum medical loss ratios 80% for individuals and small groups, and 85% for large groups – otherwise rebates are required
  - Several states are concerned about viability of MLR requirements
    - Waivers: Maine, Nevada and New Hampshire; 5 others pending
  - Rebates will be issued to employees and members based on contribution allocation; liability remains with insurer
- **Federal and state rate review and disclosure**
- **Accreditation requirements**
  - Will specific accreditation organization be named or flexibility for an insurer to select?
  - Some requirements require two years of data; collection needs to start now for 2014

Conclusions

- Individual market will be significantly different in 2014
- These changes will create membership growth, potential market instability, and definitely new added risk to the system
- Membership changes and resulting subsidy costs will be behaviorally based and therefore very unpredictable