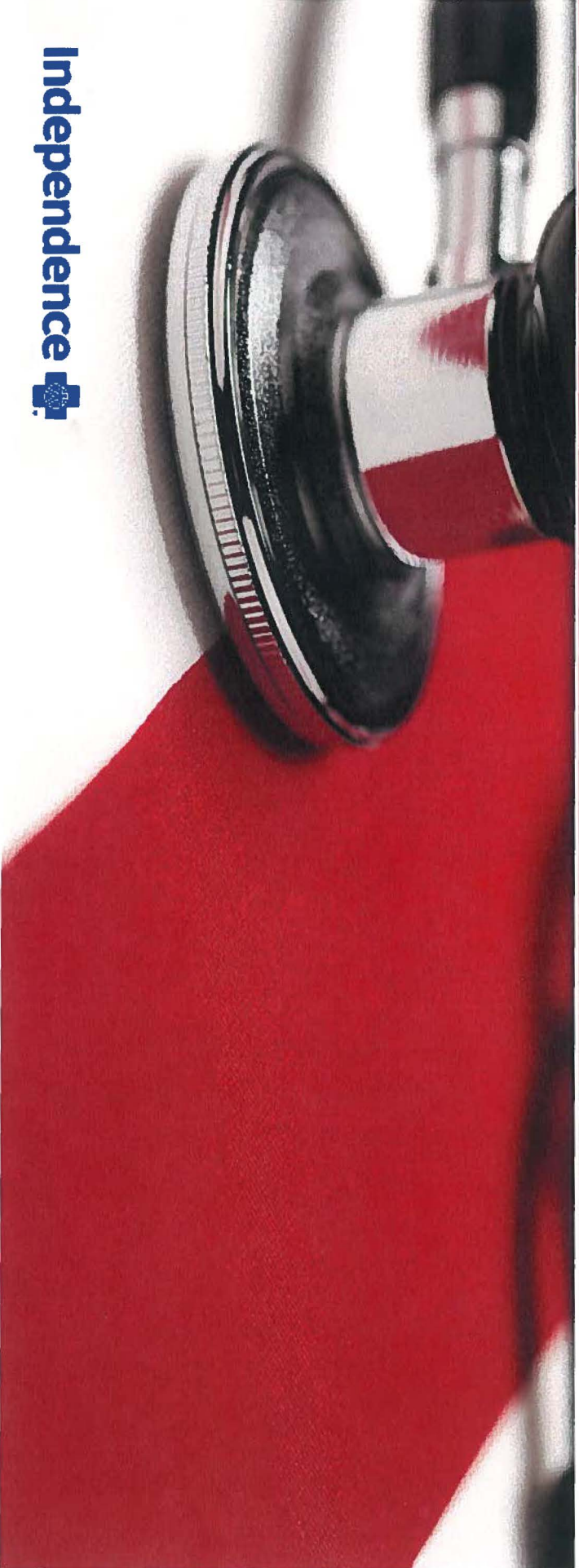




HEALTH CARE REFORM

History is Made... Now What?



Agenda

HEALTH CARE REFORM

- What does reform attempt to achieve?
- How much does reform cost and how is it paid for?
- What's happened and what happens next?
 - 2010 – Building Support And Maintaining Coverage
 - 2011-2013 – Preparing for A New World
 - 2014 and Beyond – Major Market Reform
- What does reform mean for Pennsylvania?
- Where is the debate is going?

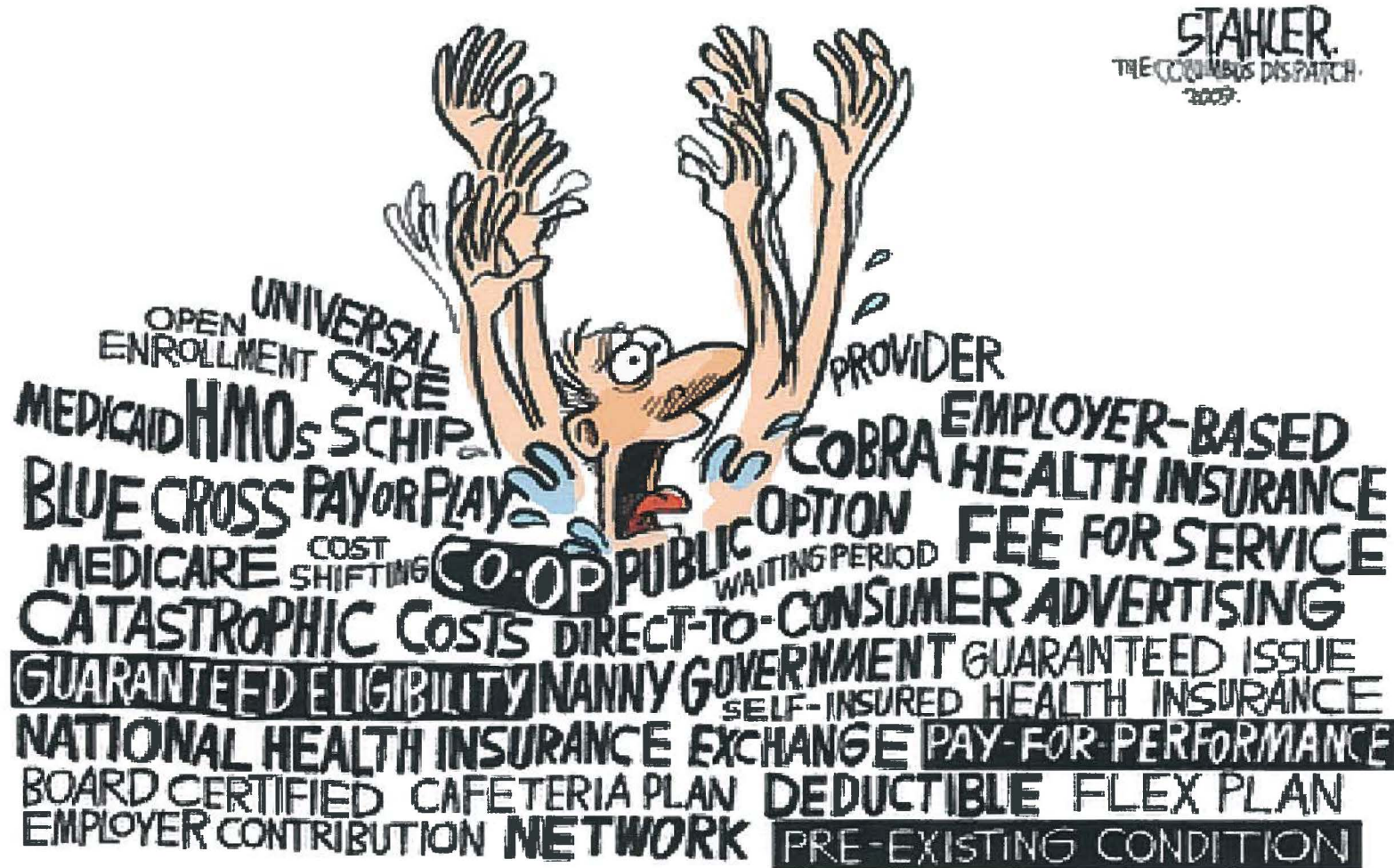
How it came about

HEALTH CARE REFORM

- On March 23, 2010 President Obama signed comprehensive health reform, the Patient Protection and Affordable Care Act (PPACA) into law.
- President Obama signed the Health Care Reconciliation Act (HCRA) on March 30, 2010.
- White House View – provide for expanded coverage, decrease health care costs, improve quality, and improve the health care delivery system.

This is Big

HEALTH CARE REFORM



What does reform attempt to achieve?

HEALTH CARE REFORM

- Expand coverage
- Require all to participate
- Make care more affordable
- Change insurance practices
- Increase choice, competition
- Improve quality of care
- Reduce cost

Key provisions

Requires

- Most U.S. citizens and legal residents to have health insurance
 - subsidies apply <400% Federal Poverty Level (FPL).
- Expands Medicaid to 133% FPL
 - (which U.S. Supreme Court made optional)
- Guarantee issue of insurance – no pre-existing conditions.
- Individuals who do not purchase insurance to pay penalties.
- Employers with 50 employees or more to provide health insurance or pay penalties.

Key provisions (continued)

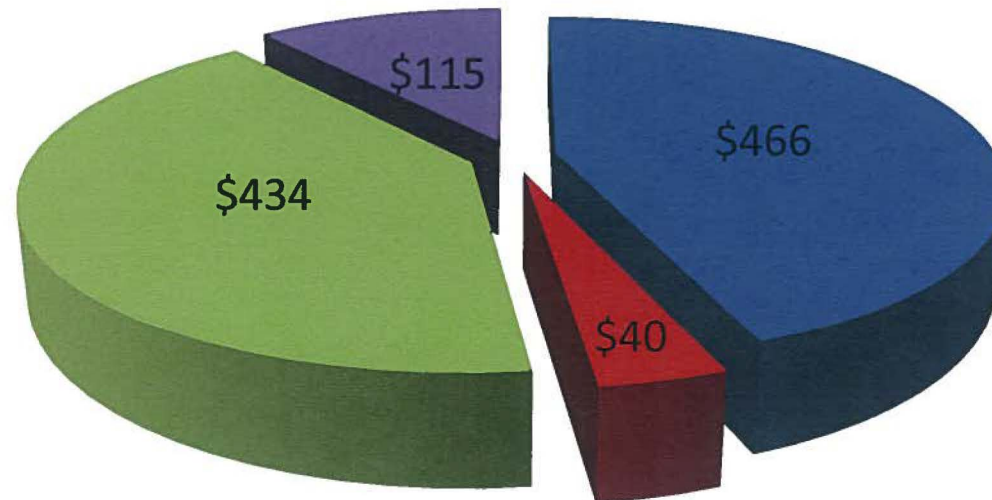
Creates

- A definition of “**essential health benefits**” levels.
- Establishes **minimum Medical Loss Ratio (MLR)** requirements for health plans.
 - 80% individual/small
 - 85% large group
- **Exchanges** through which individuals and small employers can purchase coverage.

What does it cost?

The Grand Total
\$1.05T

\$\$ in billions

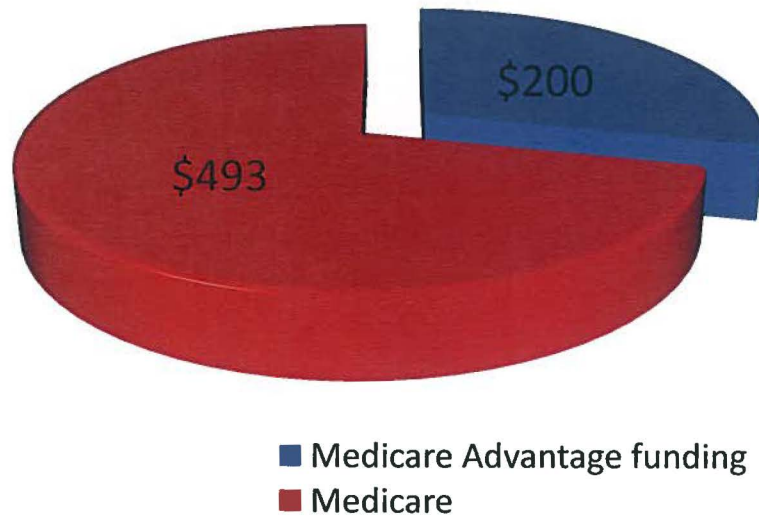


-
- New programs
 - Subsidies for low income
 - Small business tax credits
 - Expansion of Medicaid
 - Other expenses
 - Administrative costs (IRS & HHS) and grant programs
-

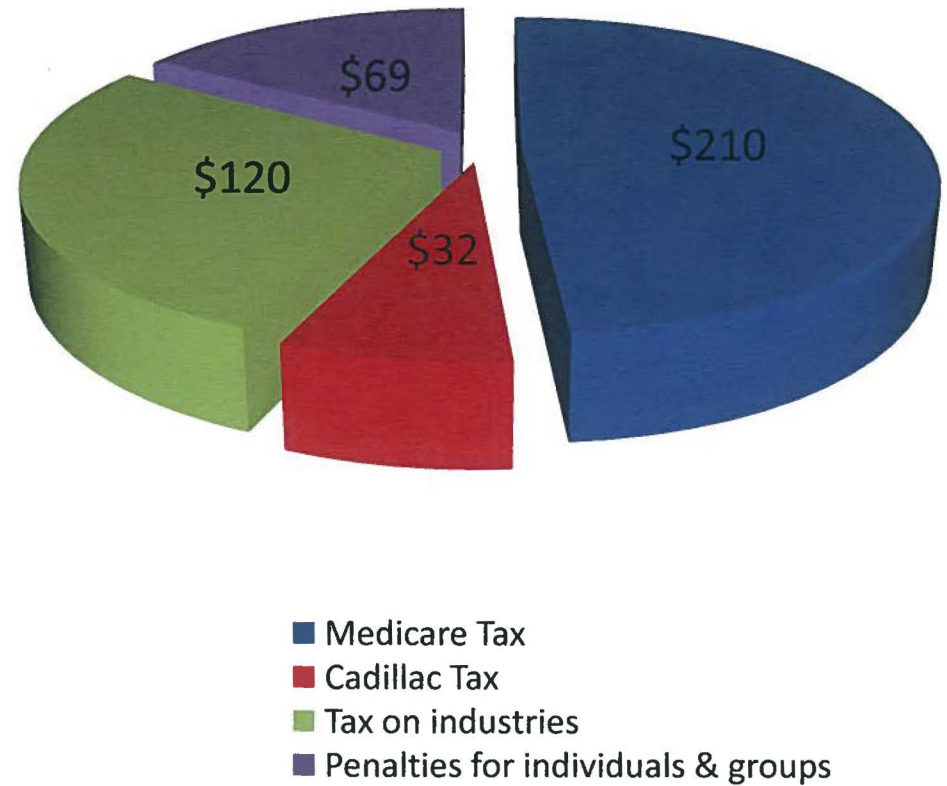
How is it paid for?

HEALTH CARE REFORM

Savings = \$693 B



New revenue = \$431 B



Implementation

HEALTH CARE REFORM

How do you implement the ACA...?

Patience and wisdom



Implementation and timeline

HEALTH CARE REFORM

2010: Building Support & Maintaining Coverage	2011-2013: Preparing for A New World	2014: Major Market Reforms
Benefit enhancement Preserve/enhance eligibility	Scrutiny of insurance premiums Medical Loss Ratios & potential rebates Reporting/standardization Beginning to pay Accountable Care Organizations	Insurance rate reforms Individual mandate Essential health benefits Subsidies Exchanges Employer responsibilities

Phases of health care reform

HEALTH CARE REFORM

2010

Building Support and
Maintaining Coverage

2011 - 2013

Preparing for A New World

2014

Major Market Reforms

2010: Building support & maintaining coverage

HEALTH CARE REFORM

Enhancing benefits

- No lifetime dollar limits
- No annual dollar limits
- 100% coverage for preventive care *
- Direct access to OB/GYN services *
- Selection of pediatrician as PCP *
- Emergency services same benefit for in-network and out-of-network *
- Enhanced appeals process with external review *

** May not apply to Grandfathered Plans*

2010: Building support & maintaining coverage

HEALTH CARE REFORM

Expanding eligibility

- Dependents to 26
- No pre-existing conditions for children under 19
- Automatic enrollment of full time employees

Maintaining Coverage

- Small employer tax credit
- Reform does not apply to retiree-only coverage
- Early retiree reinsurance
- No rescissions except for fraud

Phases of health care reform

HEALTH CARE REFORM

2010

Building Support and
Maintaining Coverage

2011 - 2013

Preparing for A New World

2014

Major Market Reforms

2011-2013 Preparing for a New World

HEALTH CARE REFORM

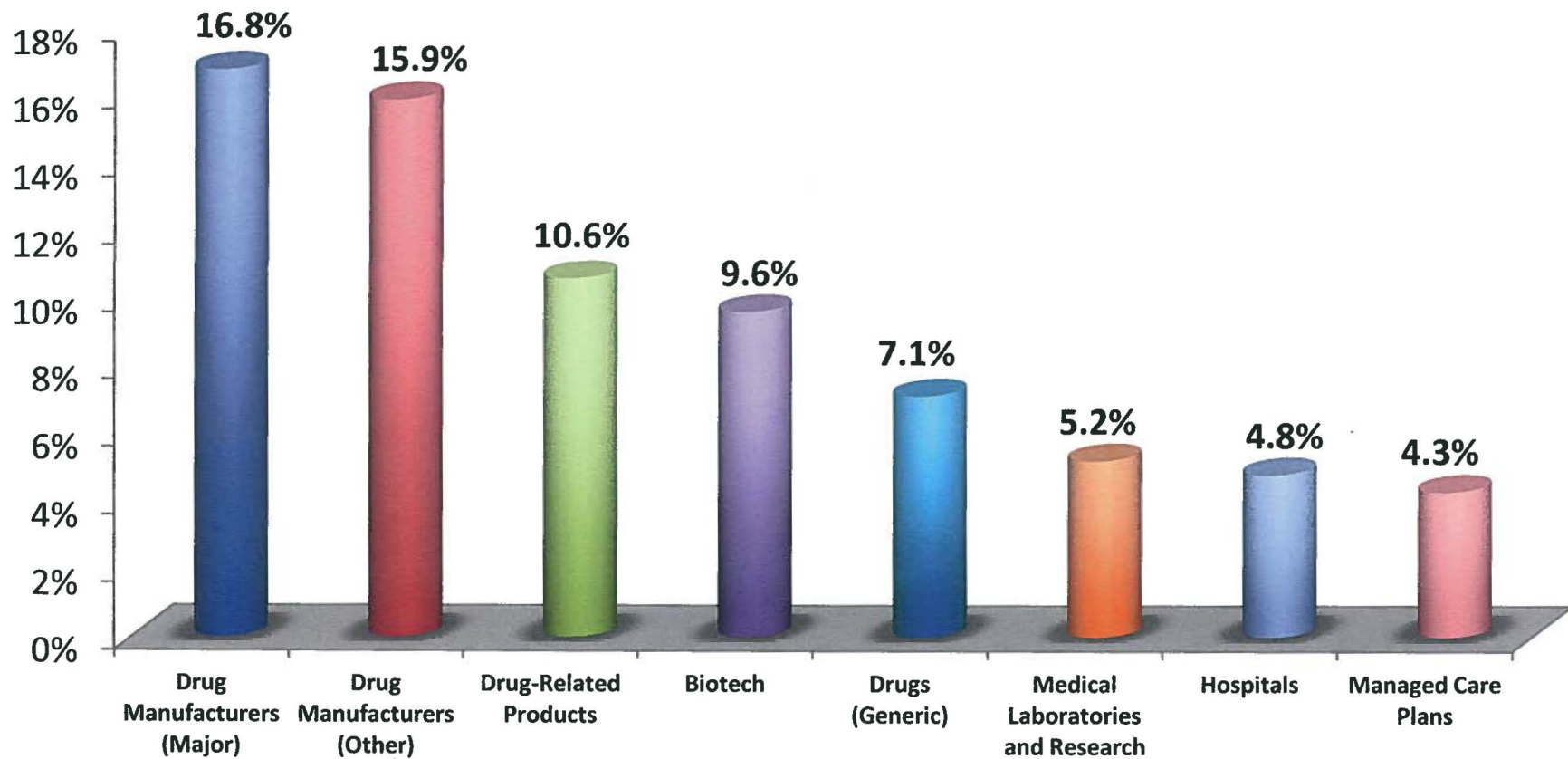
Focus on insurance premiums

- Medical Loss Ratio (MLR)
 - 80% individual and small group
 - Rebates to customers due if MLR thresholds exceeded
 - 85% large group
 - Rebates to customers due if MLR thresholds exceeded
- Rate Review
 - State vs. federal role
 - What is unreasonable?
 - Federal regulations establish rate increases >10% as the basis for further HHS review

2011-2013 Preparing for a New World

HEALTH CARE REFORM

Net Profit Margins of Publicly Traded Companies by Industry, 2012



Source: Yahoo Finance, Net Profit Margin of Publicly Traded Companies, January 2013

2011-2013 Preparing for a New World

HEALTH CARE REFORM

States

- Decisions regarding Exchanges (State/Federal/Partnership)
- Medicaid Expansion
- New Rate and Form Filings
 - Market Transition
 - Withdrawal

New Requirements for Employers

- W-2 Forms contain info on the value of health benefits
- Revised Summary of Benefits and Coverage descriptions
- Employers required to educate employees on Exchanges

New Requirements for Insurance Companies

- Reporting on quality and transparency
- Revised Summary of Benefits and Coverage descriptions

2011-2013 Preparing for a New World

HEALTH CARE REFORM

Beginning to pay

2011	Doubling the penalty for nonqualified distributions from health savings accounts to 20% Changes to Flexible Spending Account rules
2012	Annual fees on Pharmaceutical Industry Comparative effectiveness fee (\$1 PMPY) Reduction in Medicare Advantage payments
2013	Tax on retiree drug subsidy Medicare tax on high income earners Comparative effectiveness fee (\$2 PMPY) New taxes on medical devices Flexible Spending Account caps take effect (Medical only)
2014	Health Insurance Excise Tax \$63 (PMPY) Reinsurance Fee on all fully insured and self-funded business (declines over time) Up to 3.5% Federally Facilitated Exchange User Fee (proposed)

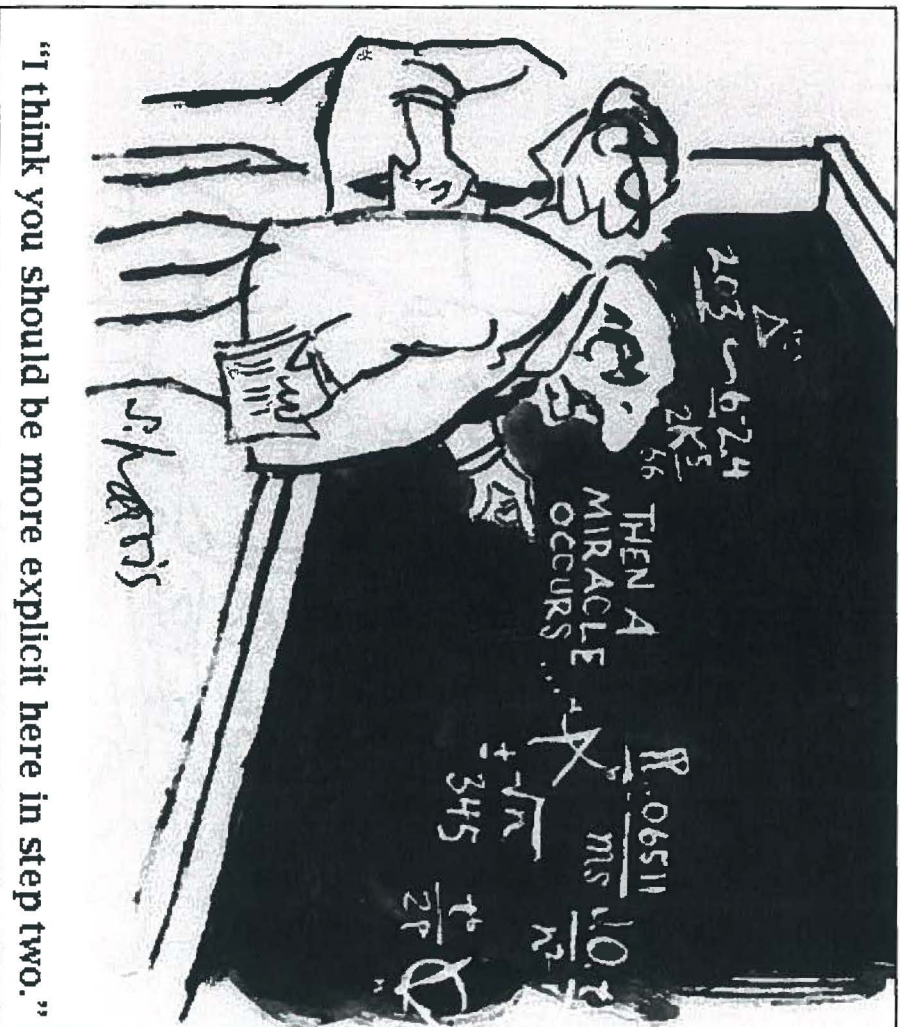
Phases of health care reform

HEALTH CARE REFORM

2010	Building Support and Maintaining Coverage
2011 - 2013	Preparing for A New World
2014	Major Market Reforms

2014 Major Market Reform

HEALTH CARE REFORM



2014: Major Market Reform

HEALTH CARE REFORM

Individual Mandate

- Most individuals required to have “minimum essential coverage”
- Penalties apply for non-compliance
 - \$95 in 2014 → \$695 in 2016
 - or
 - 1% taxable income in 2014 → 2.5% in 2016
(whichever is greater)
- Available for subsidies up to 400% Federal Poverty Level (FPL)
- States may elect to expand Medicaid coverage to 133% FPL

2014: Major Market Reform

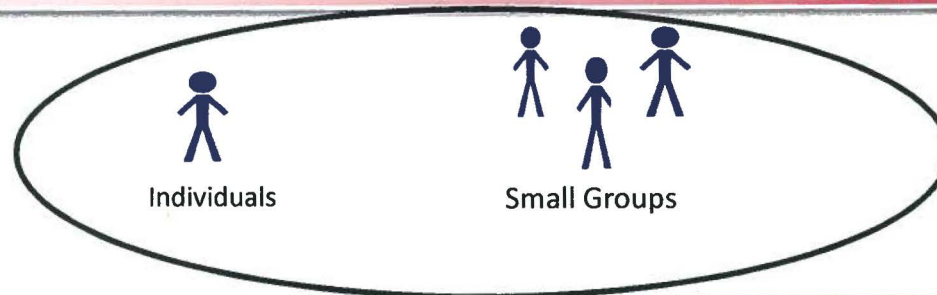
HEALTH CARE REFORM

Insurance is still about managing risks...Rating reforms

Rating Reforms	
Current	2014
Underwriting <ul style="list-style-type: none">• Pre-existing conditions• Health Status• Age• Sex• Geography• Wide Rate Bands	Guarantee Issue <ul style="list-style-type: none">• No Pre-existing conditions• Tobacco Use• Age• Tier• Geography• 3:1 Rate Bands

Exchanges will create a new marketplace... but an “Off-Exchange” market will continue

HEALTH CARE REFORM



Exchange		or	Off- Exchange
Individual	Small Group known as Small Business Health Options Program (SHOP) Exchange		Individual & Small Group
Facilitate the purchase of insurance coverage by qualified individuals	Assist qualified small employers enroll employees		Purchase coverage directly from Carriers
Premium Subsidy Available	No Subsidy		No Subsidy

All plans (on & off exchange) will ...
 Be offered on Guarantee-Issue basis (no pre-ex)
 Include Essential Health Benefits for covered services
 Create premiums that vary only by coverage tier, number of dependents, geographic region, age and tobacco use

2014: Major Market Reform

HEALTH CARE REFORM

Income eligibility for subsidy qualification

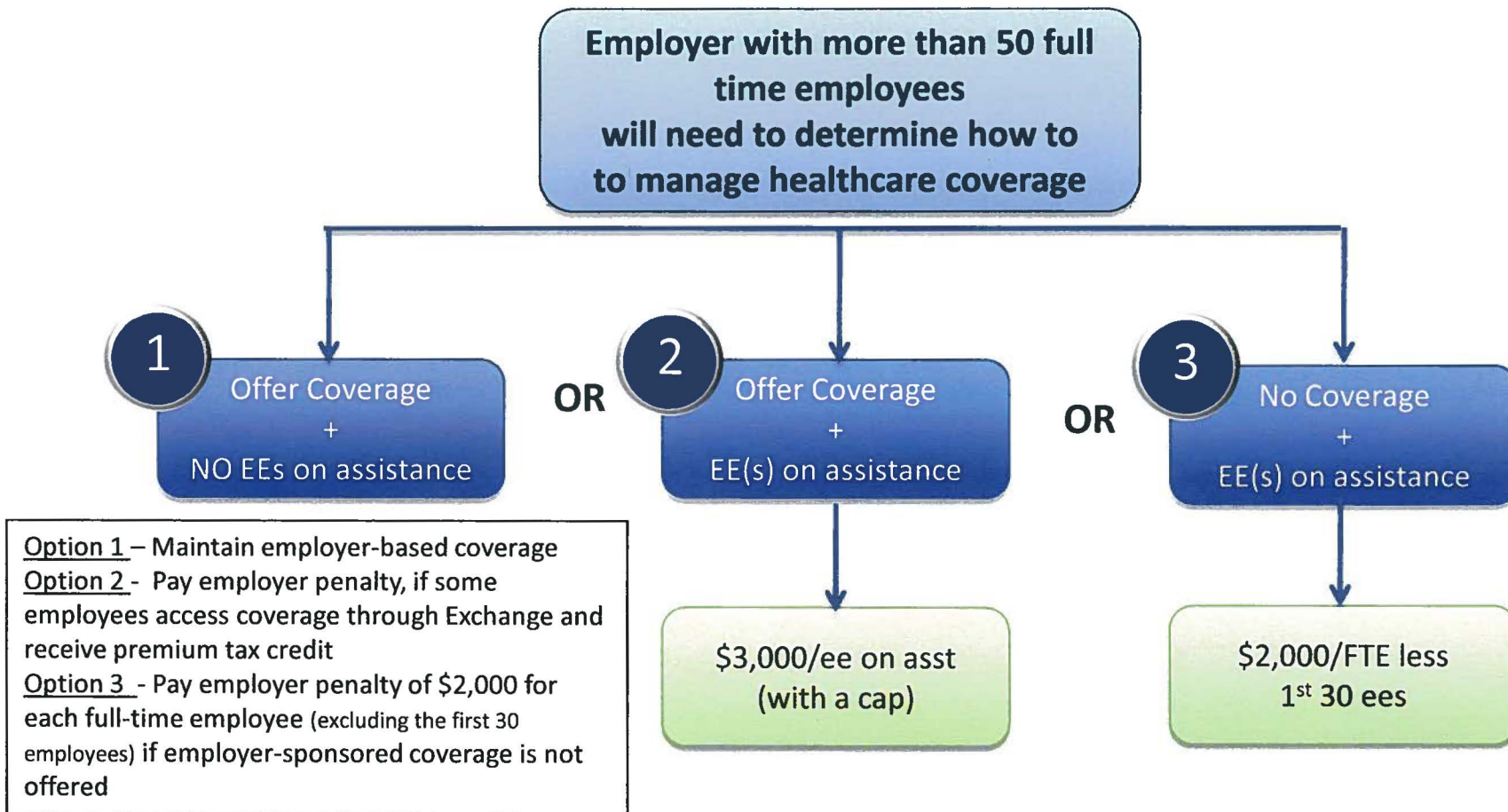
By % Gross Yearly Income (2013 FPL)								
Family Size	133% Annual	Max. Premium at 3%*	250% Annual	Max. Premium at 6.3%*	300% Annual	Max Premium at 9.5%*	400% Annual	Max Premium at 9.5%*
1	\$15,282	\$458	\$28,725	\$1,810	\$34,470	\$3,275	\$45,960	\$4,366
2	\$20,628	\$619	\$38,775	\$2,443	\$46,530	\$4,420	\$62,040	\$5,894
3	\$25,975	\$779	\$48,825	\$3,076	\$58,590	\$5,566	\$78,120	\$7,421
4	\$31,322	\$940	\$58,875	\$3,709	\$70,650	\$6,712	\$94,200	\$8,949

- The maximum annual amount that can be spent on a health insurance policy.
- Actual subsidy amount is calculated based upon the second lowest priced silver plan.
- Subsidies are actually tax credits, which individuals can elect to take as advanced amounts or defer as part of their income tax return

2014: Major Market Reform

HEALTH CARE REFORM

How will large employers react to Health Care Reform?



So what does Reform mean for PA?

HEALTH CARE REFORM

- Commonwealth Decisions
 - Health Insurance Exchange
 - Medicaid Expansion
 - Essential Health Benefits
- Impact on Employers and Individuals
 - Affordability
 - Employer Decisions
 - Individual Decisions
 - Seniors
 - Potential for Disruption
- Federal Decisions
 - Fiscal and Health Policy (Sequestration, Medicare, ACA Subsidies, Medicaid, etc.),
 - Health Care Reform Implementation

Exchange Options

- States have three Exchange operating model options

State-based Exchange

State operates all Exchange activities; however, State may use Federal government services for the following activities:

- Premium tax credit and cost sharing reduction determination
- Exemptions
- Risk adjustment program
- Reinsurance program

State Partnership Exchange

State operates activities for:

- Plan Management
- Consumer Assistance
- Both

State may elect to perform or can use Federal government services for the following activities:

- Reinsurance program
- Medicaid and CHIP eligibility: assessment or determination*

Federally-facilitated Exchange

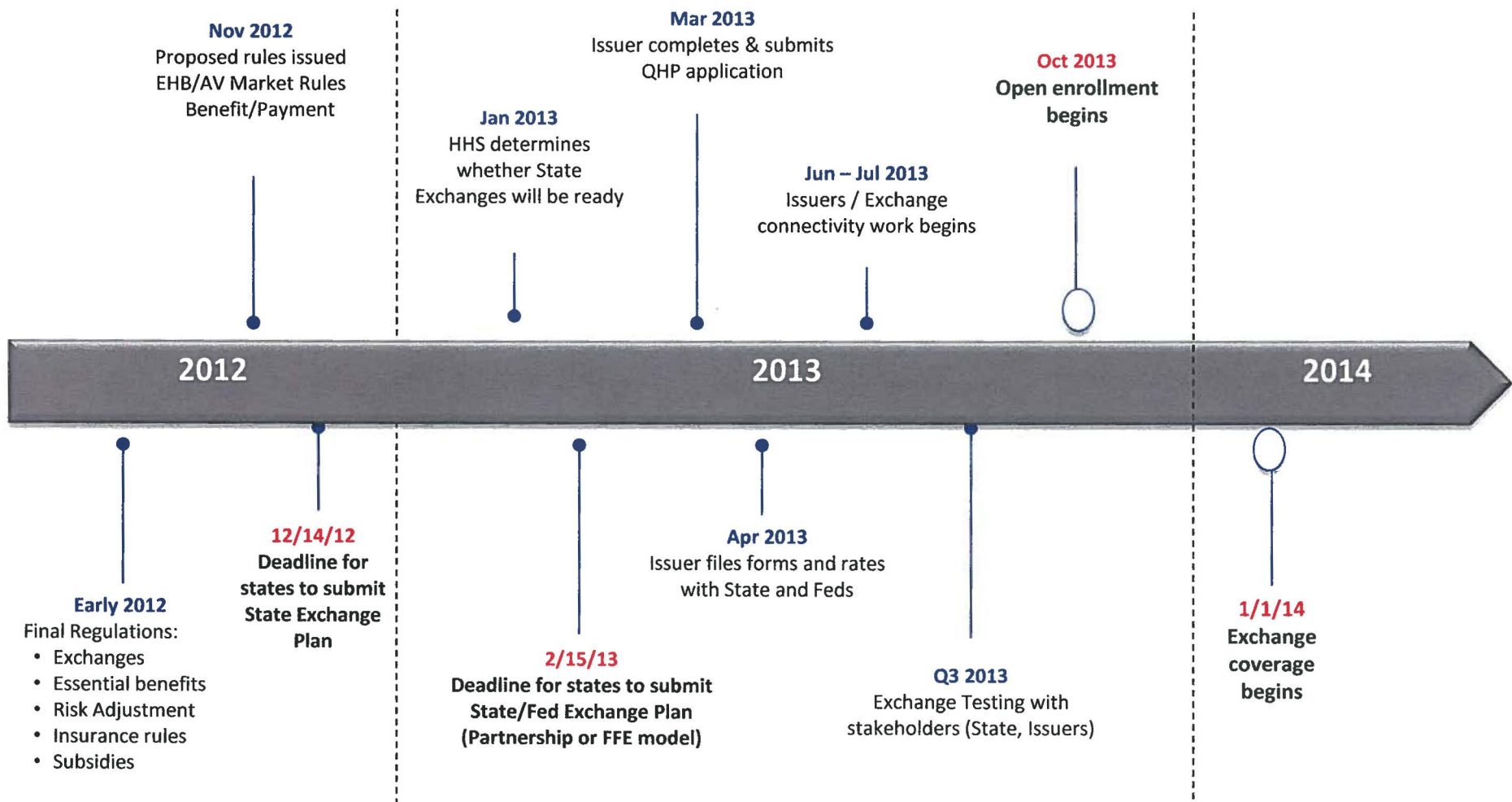
HHS operates; however, State may elect to perform or can use Federal government services for the following activities:

- Reinsurance program
- Medicaid and CHIP eligibility: assessment or determination*

*coordinate with Medicaid and CHIP services (CMCS) on decisions and protocols

Estimated Timeline -- Federally-Facilitated Exchange

HEALTH CARE REFORM



Sources: Leavitt Partners and *Developing the Federally-Facilitated Exchange*-State Exchange Grantee Meeting, September 19-20, 2011 (CMS/CCIIO presentation)

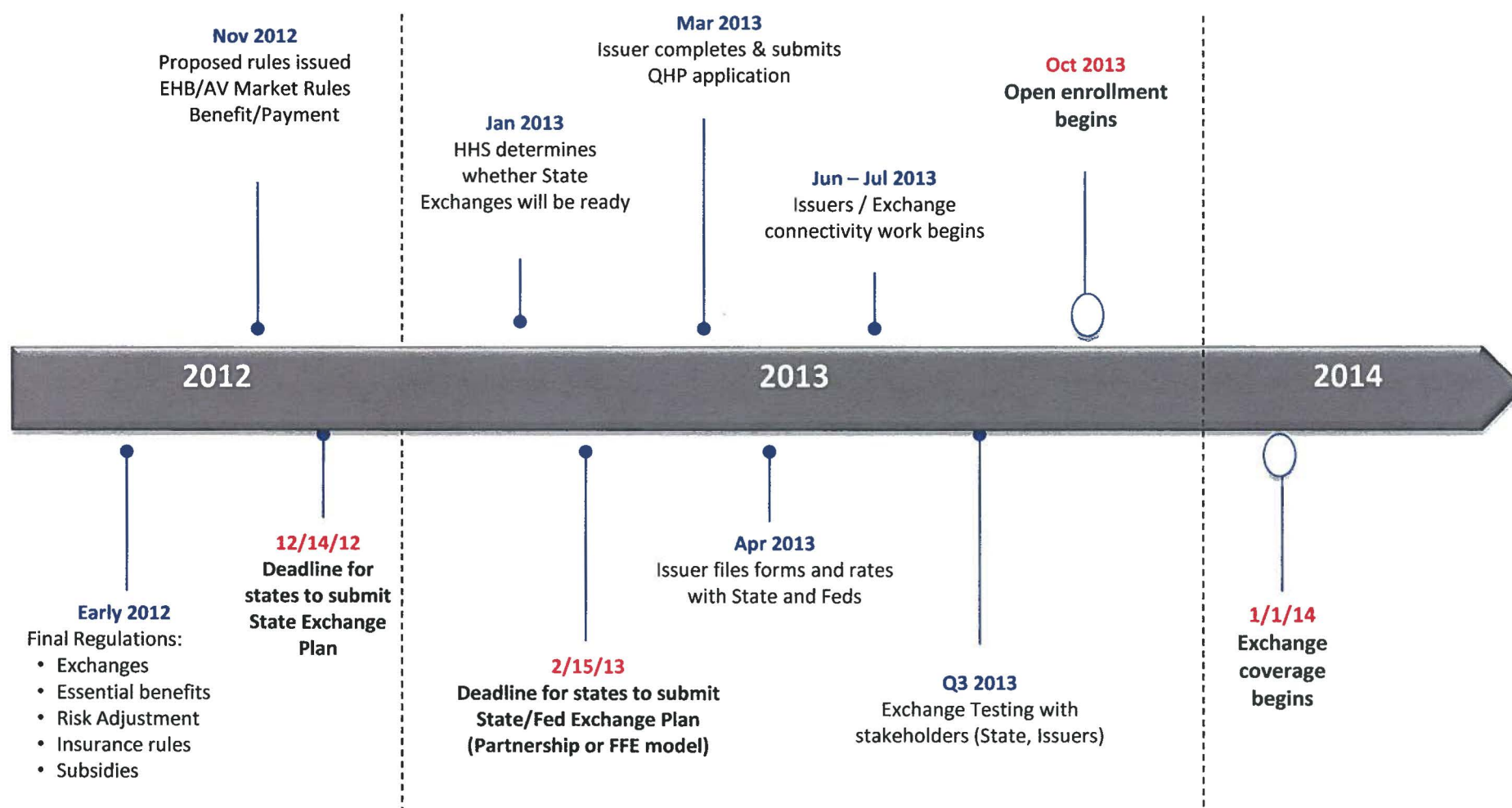
IBC's Perspective on Exchanges

HEALTH CARE REFORM

- Health Insurance Exchanges represents a major transformation of our industry.
- It is critical to have well-functioning Exchanges.
- To the greatest extent possible, the Exchanges should be designed and managed to meet the needs of Pennsylvania individuals and businesses.
- IBC's ability to plan remains limited by the large number of decisions that still need to be made.

Estimated Timeline -- Federally-Facilitated Exchange

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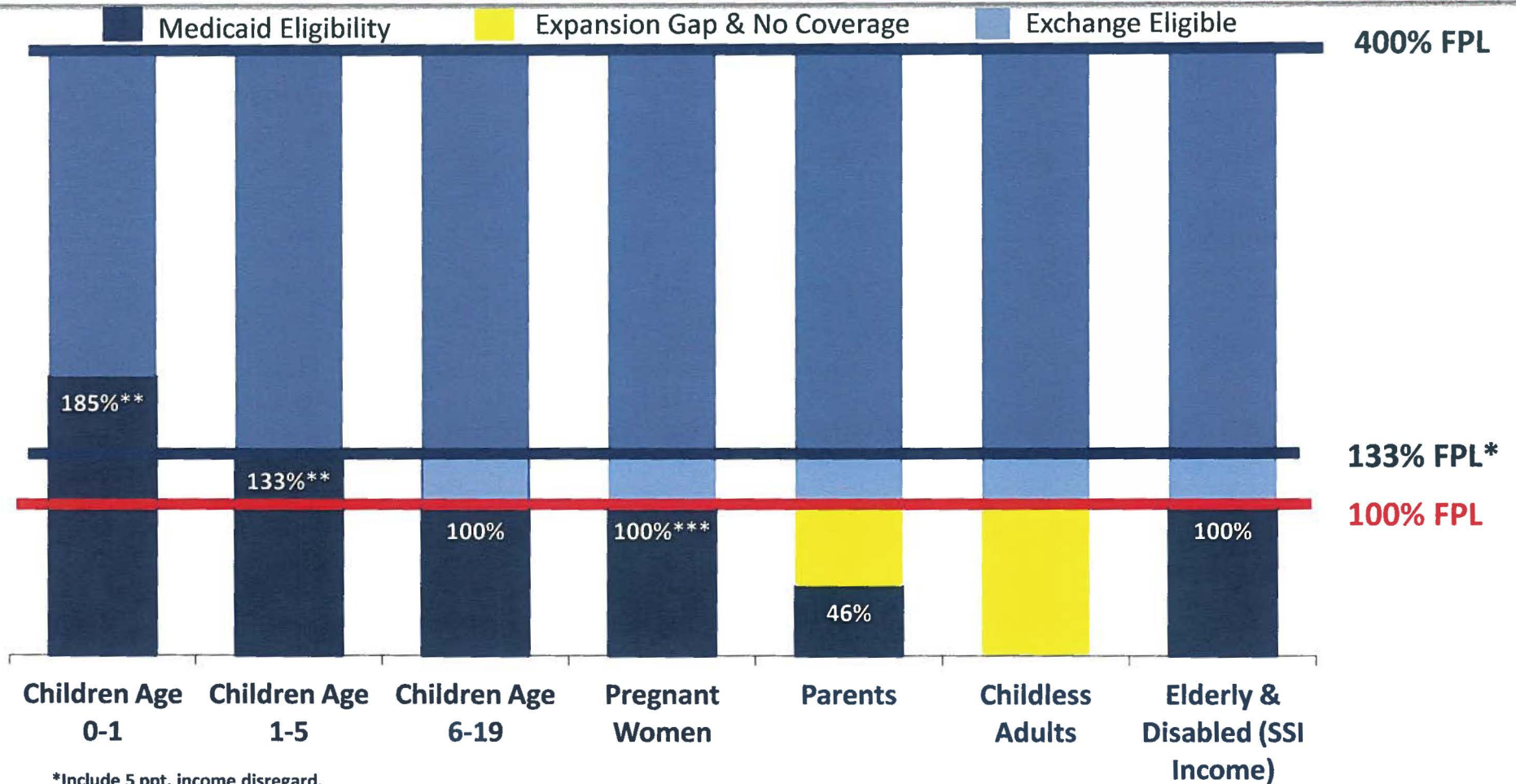
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PA Medicaid & Exchange Eligibility in 2014 without Expansion

HEALTH CARE REFORM



*Include 5 ppt. income disregard.

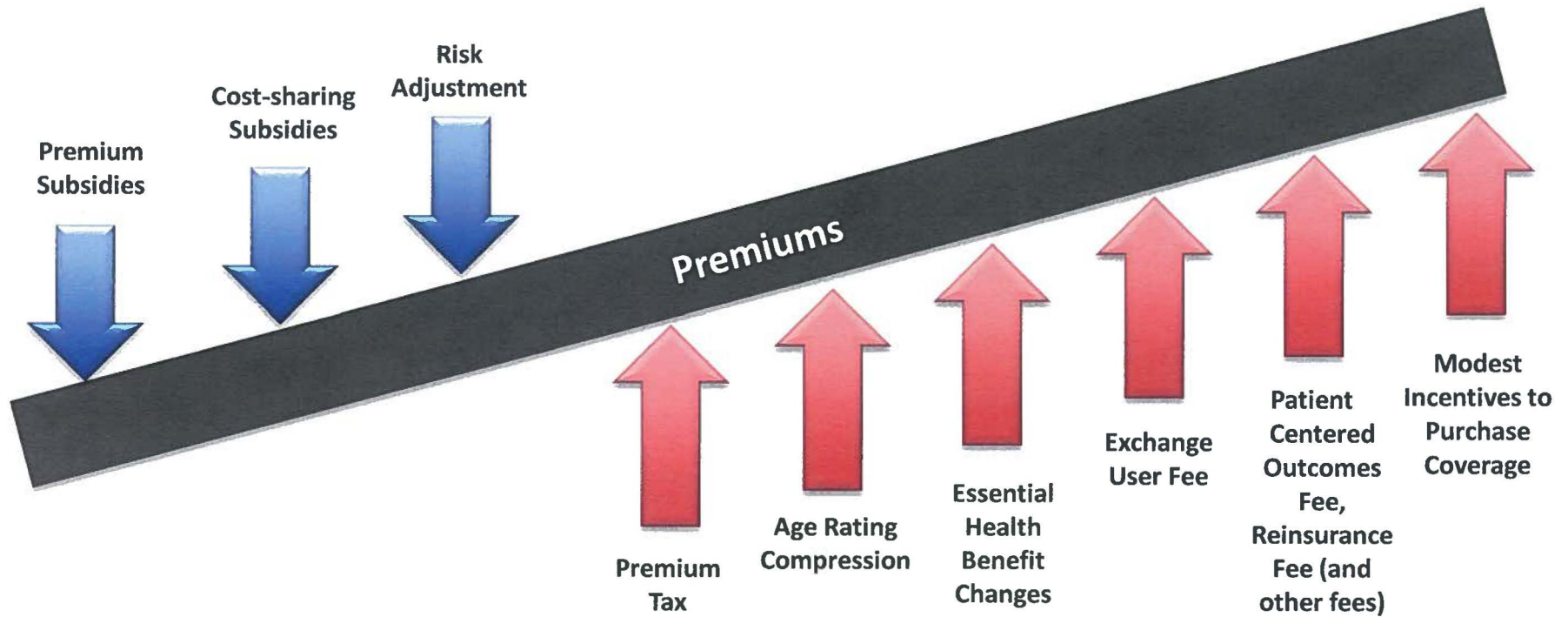
**Maintenance of Effort will remain in effect for children until 1/1/2019.

***Pregnant Women were previously covered up to 185%.

Childless adults meeting certain financial and nonfinancial eligibility requirements may receive medical benefits through the Commonwealth's General Assistance (GA) program. GA serves certain individuals who would not otherwise qualify for Medical Assistance. While benefits are administered through the Medical Assistance program, GA is entirely state funded and is not eligible for Federal Medical Assistance Percentage (FMAP) dollars.

Affordability

HEALTH CARE REFORM



Affordability – Health Insurance Excise Tax

HEALTH CARE REFORM

Impact of the Premium Tax in the Fully-Insured Market

Increase in premiums	1.9%-2.3% in 2014 2.8%-3.7% in 2023
10-year increase in the total cost of coverage in the <u>individual market</u>	For Individuals: \$2,200 For Families: \$5,100
10-year increase in the total cost of coverage in the <u>small group market</u>	For Individuals: \$2,800 For Families: \$6,800

Oliver Wyman. Estimated Premium Impacts of Annual Fees Assessed on Health Insurance Plans. October 31, 2011.

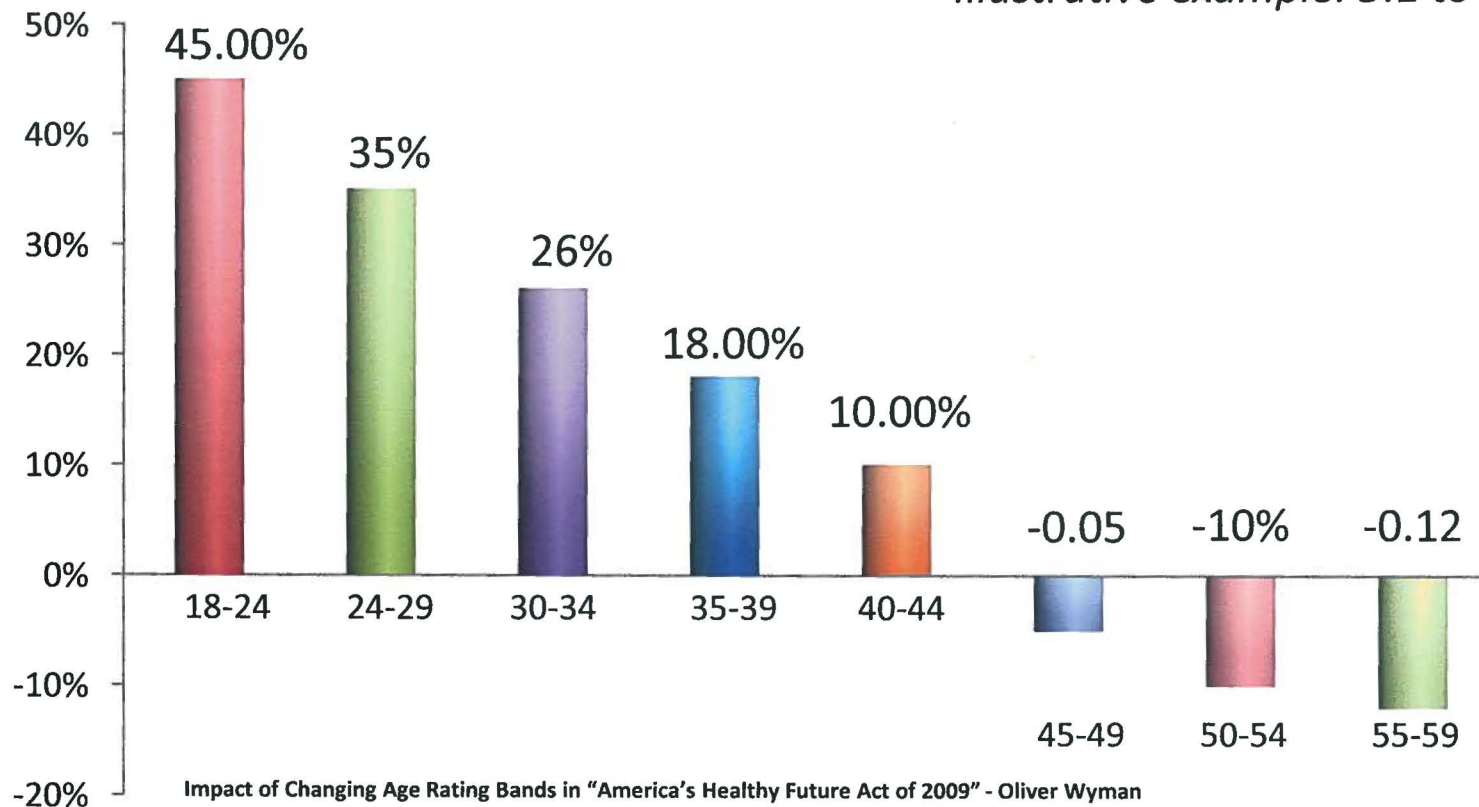
Affordability - Age-Rating Compression

HEALTH CARE REFORM

Potential Impact of Rate Reforms

PREMIUM INCREASES BY AGE GROUP

Tightening Age Band
Illustrative example: 5:1 to 3:1



2014 Medicare Advantage

HEALTH CARE REFORM

- Pennsylvania has the third highest percentage of people enrolled Medicare Advantage (MA) in the country at 39%. Of those enrolled in MA (nationwide):
 - 41% have incomes of \$20,000 or less.
 - Approximately one in five are minorities.
- On February 15, 2013, CMS issued its Annual Rate Notice, which proposes to significantly reduce premium payments to MA plans. Many of these reductions are in addition to existing cuts already in place under the ACA.
- Unless revised, reductions are expected to be approximately 7.0%-8.0%

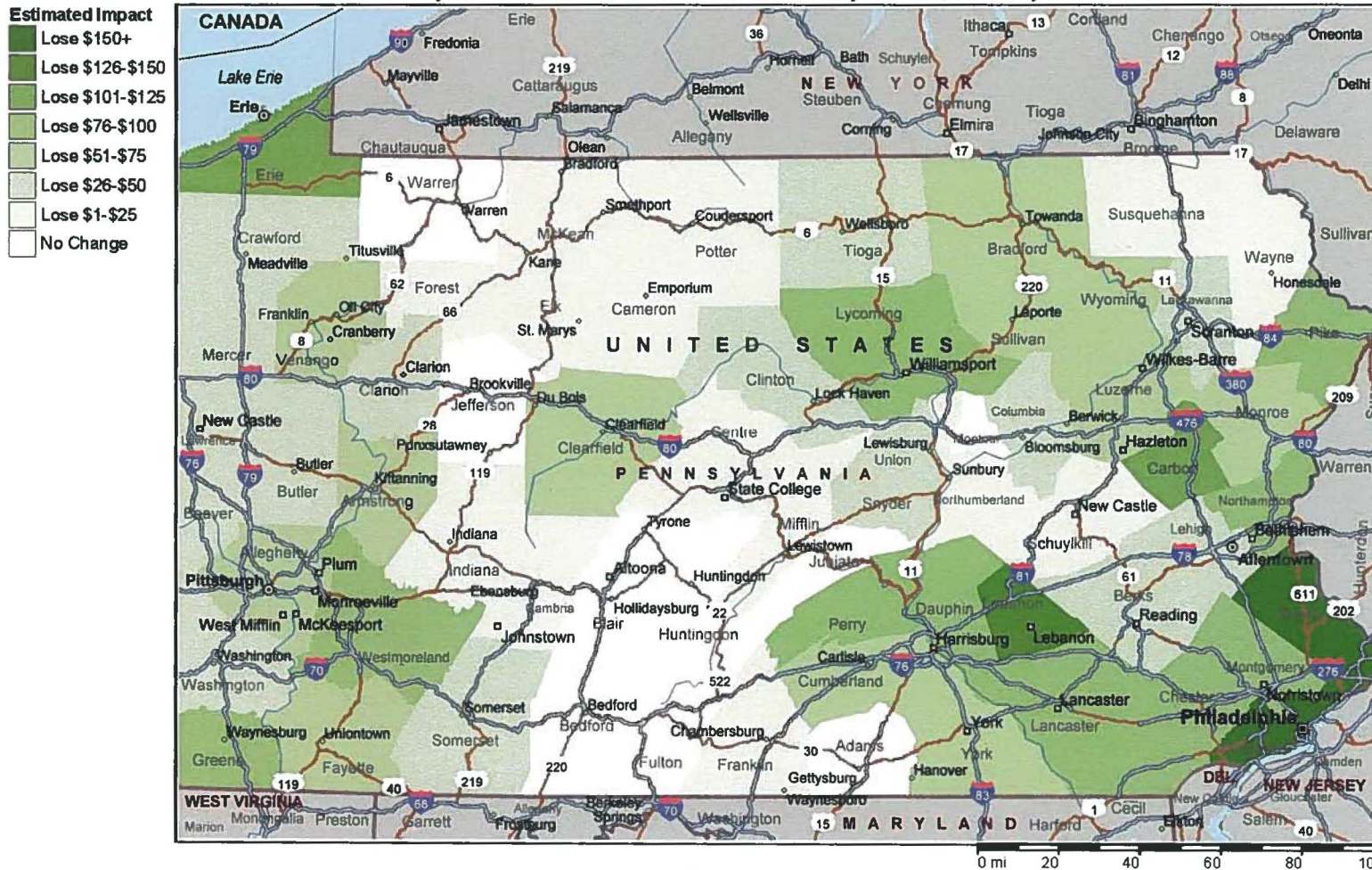
These reductions are in addition to:

- Medical Cost Trend
- Sequestration Cuts
- The new Health Insurance Tax under the ACA
- CMS Imposed Benefit Changes (e.g. SNF cost sharing and Beneficiary Cost Changes)

The Effect of Projected ACA imposed Medicare Advantage Cuts in Pennsylvania

HEALTH CARE REFORM

Estimated Impact of the ACA on 2017 MA County Rates, Pennsylvania



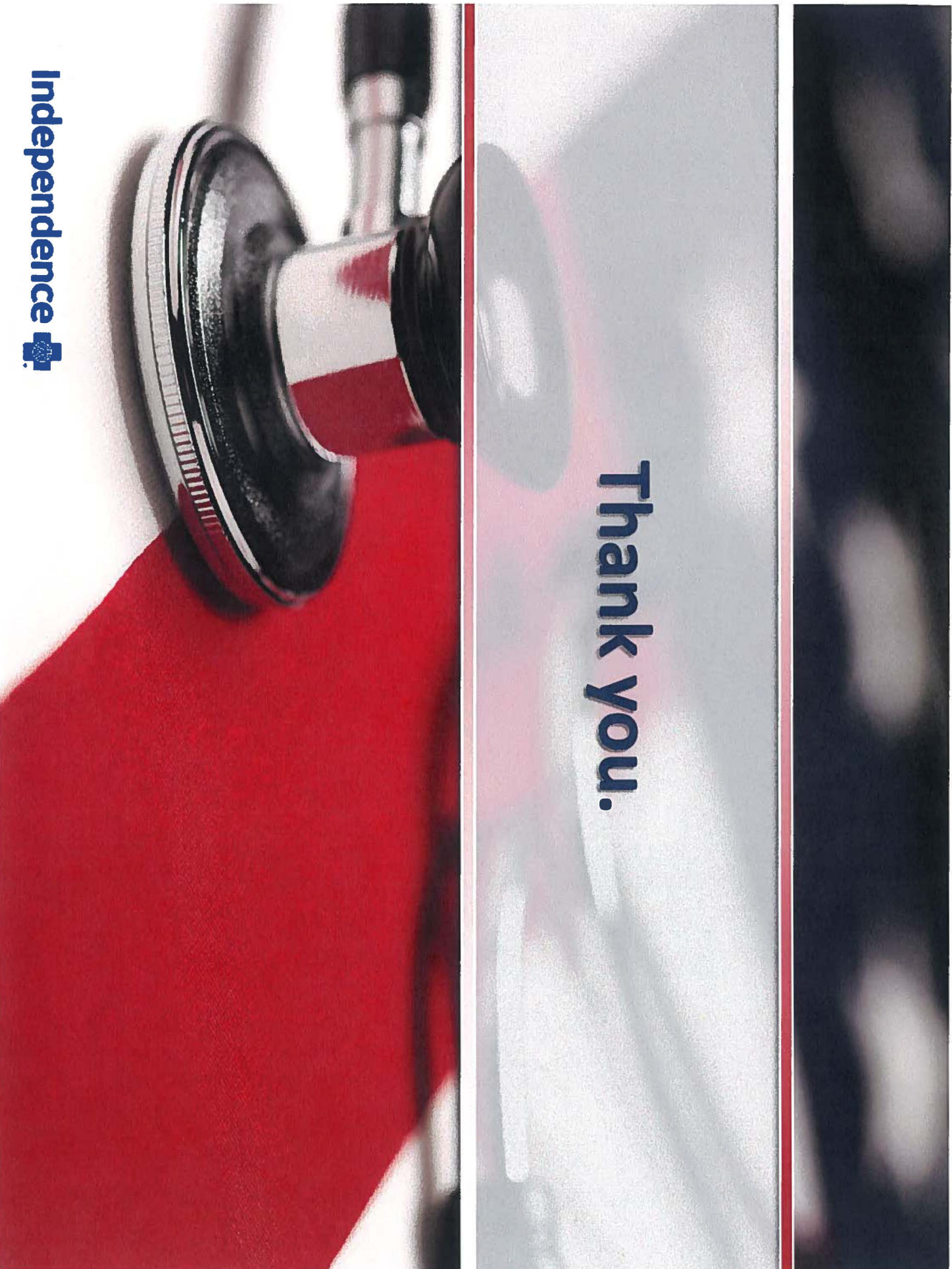
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Where the debate is going...

HEALTH CARE REFORM

The Hot Topics for the next year...

- Affordability
- Potential for confusion in the marketplace
- Medicaid expansion (and the impact of choosing to expand or not expand)
- Re-evaluation of subsidy thresholds
- The need for meaningful penalties for failing to have coverage
- Revisiting the Health Insurance Excise Tax
- Consumer reaction to the Individual Exchange and SHOP Exchange
- The effects of unintended consequences...



Thank you.

Independence 