An Update on Commercial Exchanges

Myra Weisfeld, Senior Managing Consultant
Agenda

- Introduction & overview
- ACA
- Changes to insurance coverage
- Insurance exchange update
- Summary & questions
Growth of Medicare Under Varying Assumptions

Medicare exp - billions $


Medicare beneficiaries - millions

5% growth 7% growth Beneficiaries

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Hospital Insurance (Part A) Trust Fund Balance, 2003-2019

Note: Figures show the HI Trust Fund balance at the end of each year. Figures for 2003-2007 are actual. Figures for later years are projections.

Payment Systems Over the Ages

Cost Reimbursement (1960s – 1980s)

Transition period to Prospective Payment System (1990s)

Prospective Payment System (Late 1990s to 2009)

Transition period to Prospective Payment System (1990s)

Prospective Payment System (Late 1990s to 2009)

Transition Period (Current)

• Payment Demonstration
• ACOs
• Bundled Payments

Value-Based Purchasing System
Cost Shifting from Commercial Payers

This graph shows the amount of money collected for each dollar of expense and surplus. If a payer is above $1.00 then it pays more on average than the costs of its patients. If a payer is below $1.00, then it pays less on average than the costs of its patients.
Net Income & Bonus Payments To Providers

Current Fee-for-Service Payments

Current Costs

Future Costs

New Models of Payment Systems

Net Income & Bonus Payments To Providers

Net Losses & Provider Penalties
ACA Overview

How the $938 Billion* Health Care Bill Is Financed

- Increased Medicare tax on high-income taxpayers: $210 billion
- Net cuts to Medicare (incl. donut hole fix): $416.5 billion
- Fees on insurers & medical producers: $107 billion
- Other revenue provisions: $149 billion
- Other net spending cuts (incl. education reforms): $69 billion
- Net cuts to Medicaid (excl. coverage provisions): $45 billion
- Excise tax on Cadillac health plans: $32 billion

* $938 billion is cost of coverage provisions from 2010-2019; chart adds to $1.08 trillion due to deficit reduction
PPACA Impact in 2014

• Employer Mandate
  ▪ All eligible employees working 30 hours per week
  ▪ 50+ Play or Play employees must offer coverage or pay penalty
  ▪ Delayed until 2015

• Individual Mandate
  ▪ All US citizens and legal residents are required to have MEC
  ▪ Must show coverage to IRS or pay penalty

• Expanded Medicaid Eligibility – 133% FPL

• Premium Assistance Credit
  ▪ Individuals who lack affordable employer sponsored coverage
  ▪ Affordability test of 9.5% of household income
  ▪ Household income between 100% & 400% of FPL
  ▪ Credit equals cost of silver plan to affordable premium
Individual Mandate

- Children count as ½ of a person
- 2016 is the full implementation of the tax, and thereafter the increase in penalty will be tied to a cost of living index
- All penalties are capped at the lowest cost plan (bronze) on your state’s insurance exchange

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CHANGES TO INSURANCE COVERAGE
Changes to Insurance Coverage

- Dependents up to age 26
- No lifetime limits, and no rescinding coverage
- No pre-existing conditions exclusions
- Guarantee issue
- 80-85% of premium on clinical services
- 90 day changes
- Same premium rating as in exchange
10 Required Essential Health Benefits

- Ambulatory patient services
- Emergency services
- Hospitalization
- Maternity & newborn care
- Mental health & substance abuse disorder services, including behavioral health treatment
- Prescription drugs
- Rehabilitative and habilitative services & devices
- Laboratory services
- Preventative & wellness services & chronic disease management
- Pediatric services including oral and vision care
## Changes to Insurers Rating Criteria

<table>
<thead>
<tr>
<th>Previous</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pre-existing conditions</td>
<td>• Individual or family coverage</td>
</tr>
<tr>
<td>• Prior claims history</td>
<td>• Geography</td>
</tr>
<tr>
<td>• Occupation</td>
<td>• Age</td>
</tr>
<tr>
<td>• Gender</td>
<td>• Tobacco use</td>
</tr>
<tr>
<td>• Age</td>
<td></td>
</tr>
<tr>
<td>• Duration of coverage</td>
<td></td>
</tr>
<tr>
<td>• Credit worthiness</td>
<td></td>
</tr>
<tr>
<td>• Other</td>
<td></td>
</tr>
</tbody>
</table>
Two Types of Employers

- Insurance Benefits
- No Insurance Benefits
Employers Not Providing Insurance

- Looking for ways to reduce the workforce below 50
- Reducing average hours to below 30
- Providing additional compensation to help employees purchase insurance through exchanges
- “Skinny” plans
Employers That Provide Insurance Benefits

• Eliminating spousal coverage
• Increasing out-of-pocket expenses (deductibles & co-pays)
• Narrow networks
  ▪ Selective providers for certain procedures
• Setting up on-site clinics
• Requiring employees to be non-smokers
• Entering into the self-insured market
• Private exchange option
Issues for Health Systems to Consider

• Contract negotiation is key during the next several years
• Many businesses will become self-insured, get to know your local employers and their needs
• High deductibles and co-pays will continue to be an issue
• Wellness programs and coordinated care are becoming more prevalent within commercial plans
• Bundled payments and outcomes measured payments are increasing in commercial plans
INSURANCE EXCHANGES
Health Insurance Exchange Decisions

- State-based Marketplace (16 states and DC)
- Partnership Marketplace (7 states)
- Federally-facilitated Marketplace (27 states)

Source: www.kff.org
Health Insurance Exchanges

- Individuals and small businesses (<50)
- Larger employers beginning 2017
- Creates four benefit plan levels, plus catastrophic plan
- Guarantee issue and renewability
Small Business Health Options Program (SHOP)

- Employers with 50 or fewer FTEs, increasing to 100 FTEs in 2016
- Allows employers to control coverage and how much they pay towards premiums
- Can qualify for small business health care tax credit
  - Up to 50% of premium costs
- Several states at least 70% of FTEs must enroll in employer SHOP Plan
- Some states limited options for SHOPS in 2014
Health Insurance Exchanges

• Similar to regular insurance coverage
• Enrollment period 10/1/2013 – 3/31/2014
• Coverage effective beginning 1/1/2014
• No retrospective coverage
• Significant amount of people will be eligible for subsidies based on FPL
Types of Health Plans Offered

- Bronze plans will typically have higher out-of-pocket expenses, including co-pays and deductibles with lower premiums
- The premium subsidies for individuals and families are estimated using silver plans
- Catastrophic plans are separate plans for individuals under 30

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>% of Costs Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronze</td>
<td>60%</td>
</tr>
<tr>
<td>Silver</td>
<td>70%</td>
</tr>
<tr>
<td>Gold</td>
<td>80%</td>
</tr>
<tr>
<td>Platinum</td>
<td>90%</td>
</tr>
</tbody>
</table>
Who is Offering Plans in Texas?

- Aetna
- Ambetter Superior Health Plan
- BCBS of Texas
- Cigna
- Community Health Choice
- Community First

- Firstcare Health Plans
- Humana
- Molina
- Scott & White Health Plan
- Sendero Health Plans
## Average Premiums In Texas

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Age 27</th>
<th>Age 50</th>
<th>Family</th>
<th>Individual &amp; Child</th>
<th>Couple</th>
<th>Child</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platinum</td>
<td>$ 265.35</td>
<td>$ 452.23</td>
<td>$ 896.32</td>
<td>$ 608.93</td>
<td>$ 647.16</td>
<td>$ 160.77</td>
</tr>
<tr>
<td>Gold</td>
<td>$ 282.31</td>
<td>$ 481.11</td>
<td>$ 953.60</td>
<td>$ 647.86</td>
<td>$ 688.35</td>
<td>$ 171.06</td>
</tr>
<tr>
<td>Silver</td>
<td>$ 235.83</td>
<td>$ 401.91</td>
<td>$ 796.61</td>
<td>$ 541.20</td>
<td>$ 575.17</td>
<td>$ 142.90</td>
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<tr>
<td>Bronze</td>
<td>$ 178.64</td>
<td>$ 304.42</td>
<td>$ 603.39</td>
<td>$ 409.94</td>
<td>$ 435.68</td>
<td>$ 108.24</td>
</tr>
<tr>
<td>Catastrophic</td>
<td>$ 170.23</td>
<td>$ 290.06</td>
<td>$ 574.94</td>
<td>$ 390.61</td>
<td>$ 415.14</td>
<td>$ 103.13</td>
</tr>
</tbody>
</table>
Average Premiums in Texas

- 95 QHPS offered state-wide
  - 46 QHPs in the Houston market
- Average premiums in Texas are lower than national average
- Texas has second highest enrollment in federal marketplace
- Texans can enroll in QHPs directly through insurers, bypassing the exchange website entirely
Exchange Enrollees through February 2014

• 4.2 million persons enrolled throughout US
  ▪ Approximately 300,000 new enrollees in Texas through the exchanges for insurance
  ▪ Approximately 95,000 new enrollees in Texas through the exchanges for Medicaid
• 55% Female / 45% male
• 31% of enrollees below age 34
• 83% of exchange participants obtained financial assistance status
• 63% enrolled in silver plans, 18% bronze plans
### 2014 Federal Poverty Levels

<table>
<thead>
<tr>
<th>Household Size</th>
<th>100%</th>
<th>133%</th>
<th>150%</th>
<th>200%</th>
<th>300%</th>
<th>400%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$11,490</td>
<td>$15,282</td>
<td>$17,235</td>
<td>$22,980</td>
<td>$34,470</td>
<td>$45,960</td>
</tr>
<tr>
<td>2</td>
<td>15,510</td>
<td>20,629</td>
<td>23,265</td>
<td>31,020</td>
<td>46,530</td>
<td>62,040</td>
</tr>
<tr>
<td>3</td>
<td>19,530</td>
<td>25,976</td>
<td>29,295</td>
<td>39,060</td>
<td>58,590</td>
<td>78,120</td>
</tr>
<tr>
<td>4</td>
<td>23,550</td>
<td>31,323</td>
<td>35,325</td>
<td>47,100</td>
<td>70,650</td>
<td>94,200</td>
</tr>
<tr>
<td>5</td>
<td>27,570</td>
<td>36,670</td>
<td>41,355</td>
<td>55,140</td>
<td>82,710</td>
<td>110,280</td>
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## Premium Subsidies by FPL

### Premium Subsidies to Individuals/Families

**Example: Family of Four**

<table>
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<tr>
<th>FPL Range</th>
<th>From</th>
<th>To</th>
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<td>100-133%</td>
<td>$23,550</td>
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<td>31,323</td>
<td>35,325</td>
<td>3-4%</td>
</tr>
<tr>
<td>150-200%</td>
<td>35,325</td>
<td>47,100</td>
<td>4-6.3%</td>
</tr>
<tr>
<td>200-250%</td>
<td>47,100</td>
<td>58,875</td>
<td>6.3-8.05%</td>
</tr>
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<td>58,875</td>
<td>70,650</td>
<td>8.05-9.5%</td>
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Individual Mandate

- Children count as ½ of a person
- 2016 is the full implementation of the tax, and thereafter the increase in penalty will be tied to a cost of living index
- All penalties are capped at the lowest cost plan (bronze) on your state’s insurance exchange

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Greater of 2014 2015 2016
Flat dollar penalty individual $ 95 $ 325 $ 695
Flat dollar max. penalty family $ 285 $ 975 $ 2,085
% of income penalty 1% 2% 2.5%
Individual Mandate Example – Individual Male
33 years old

$22,980  Annual income 1 individual at 200% FPL

1.0%  % of income penalty

$130  Total % of Income penalty *

$95  Flat dollar penalty 2014

$325  Flat dollar penalty 2015

$695  Flat dollar penalty 2016

* Income is defined as total income in excess of the filing threshold $10,000 for individuals and $20,000 for families in 2013
Insurance Exchange Example – Individual Male
33 Years Old

$ 22,980  Annual income 1 individual at 200% FPL

6.30% Premium as a % of income

$ 1,448  Individual's share of premium ($121 monthly)

$ 3,018  Annual health insurance premium

(1,448) Less: Individual's share of premium (48%)

$ 1,570  Premium support (52%)

$ 1,448  Individual's share of premium

$ 130  Individual mandate penalty/tax
Insurance Exchange Example – Family of Four

$ 50,046  Annual income family of 4 in US (213% of FPL)

6.75% Premium as a % of income (approximate)

$ 3,378  Family's share of premium ($282 monthly)

$ 9,869  Annual health insurance premium

(3,378) Less: family's share of premium (34%)

$ 6,491  Tax credit/premium support (66%)

$ 3,378  Individual's share of premium

$  500  Individual mandate penalty/tax
Texas Medicaid Eligibility – Who is Covered?

- Pregnant Women & Children 0-1: 185%
- Children 1-5: 133%
- Children 6-18: 100%
- Parents: 26%
- Aged, Blind & Disabled: 75%
- Childless Adults: 0%

138% FPL
Texas Medicaid & Uninsured Population

- Individuals below 100% FPL are not eligible for subsidies in the exchanges
  - Approximately 1 million Texans will fall into this “coverage gap”
- Texas has the highest % of uninsured in the nation approximately 25% of residents
  - Up to 47% in some rural areas
- Over 6 million people are below 100% of the FPL
Key Issues for Insurers

- Commoditization of the small group product because of standardized benefits and transparent pricing
- Incentive for employers to shift to self-funded products because of health insurance industry tax
- Strong underwriting capability is no longer as valuable
- Required to offer coverage to everyone but the requirement to buy insurance is quite weak
- Adverse selection
Issues for Health Systems to Consider

• Many people will decide to roll the dice
• Price will be a key consideration
• Higher out-of-pocket costs most likely will increase bad debts and charity care
• Assistance enrolling residents into the exchanges
• Rural markets will most likely have fewer options than urban
• Ensuring current contracts cover exchange participants’ insurers, contract renegotiation
Issues for Health Systems to Consider

• Uncompensated care and bad debts will still be prevalent, especially in states without Medicaid expansion

• Subsidies are not offered to individuals below 100% of the FPL

• Some health systems are considering paying premiums on 100-138% FPL

• The cost sharing premiums will likely cause billing/collection issues with the insurers
Summary

- Insurance exchanges are expected to cover 24 million people by 2016, 2014 estimates of enrollees have fallen short of original expectations.
- Exchange based plans are expected to reimburse at lower rates than existing commercial plans, but generally cover a wider range of services.
- Expansion will most likely cause additional stresses to physician shortages, especially primary care physicians.
- Without stronger penalties and Medicaid expansion a significant amount of the population still is without insurance coverage.
- High deductibles and co-pays will continue to be an issue for health systems to try to collect.
- Providers may need to collect different amounts for the same service for patients eligible for cost-sharing subsidies, increasing the complexity of billing and the necessity of accurately identifying collections at POS.
- Coordinated care, wellness programs, medical homes, etc. are gaining traction.
- More burden and costs for hospitals with lower reimbursement.
- Many of these issues continue to drive the M&A activity throughout the industry.
Thank You

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