

# Healthcare Reform: Actuarial Aspects and Effects

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# Disclaimers

## Political Disclaimer

- This presentation is very political by nature.
- We are going to do our best to make sure all political bias is removed.
- Limit political questions, or at least save them until the end.
- Views expressed are not official Regence opinion

## Uncertainty Disclaimer

- Presentation about Healthcare Reform as we understand it today
- Election Day shifts
- Interpretations/clarifications

## Pronoun Disclaimer

- We/Us is meant to be industry as a whole, not any specific company or us personally.

# Presentation Outline

- Timeline
  - 2010
  - 2011 – 2013
  - 2014
- Talk about actuarial implications
- Headline News Topics
- Healthcare Reform and the Actuarial Profession

# Patient Protection and Affordable Care Act

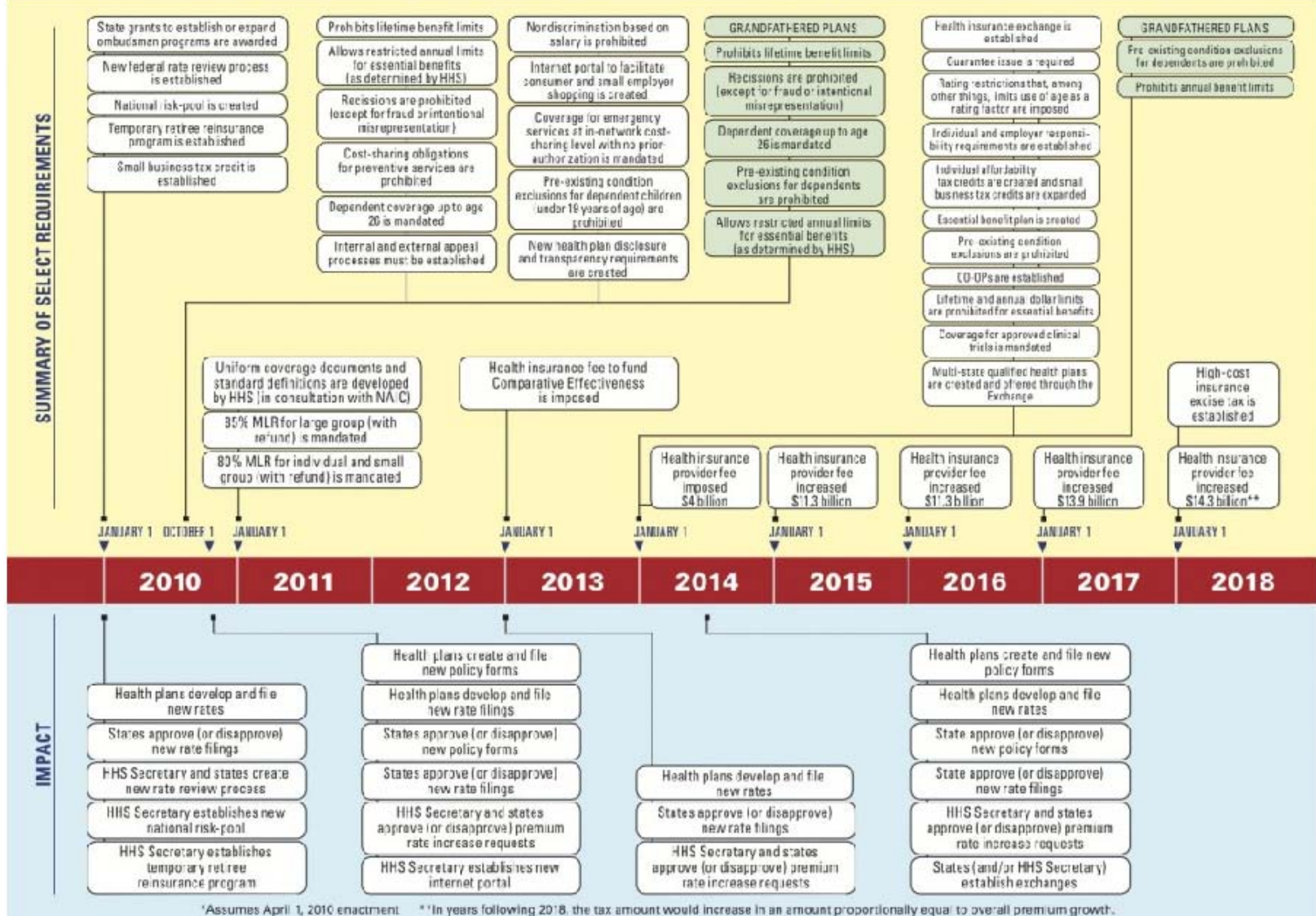
## PPACA

- AKA “Healthcare Reform”
- President Obama signed into law March 23, 2010
- Law includes health-related provisions to take effect over the next 4 years
- Costs of provisions are to be off-set by a variety of taxes, fees and cost-saving measures
  
- Seems so simple!
  
- Or maybe not?

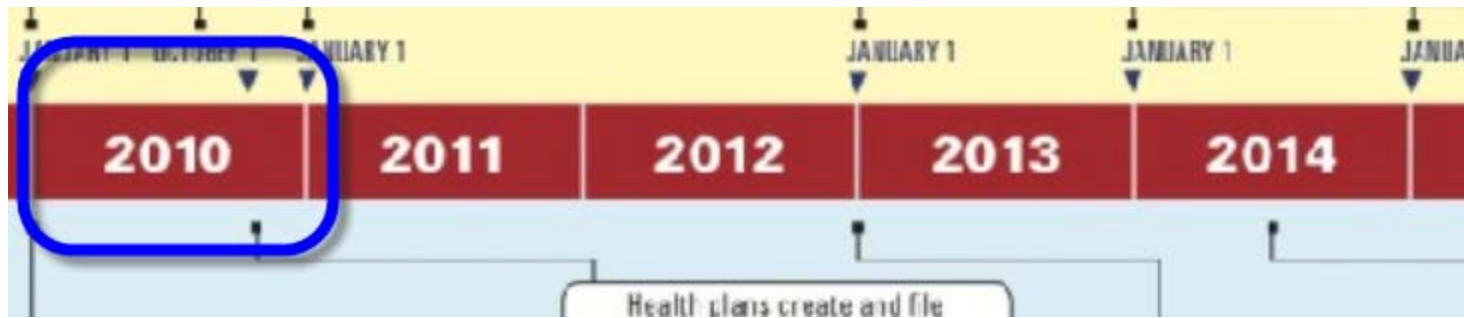


# Timeline Overview

## Health Care Reform Bill Timeline (as revised by the House Reconciliation Bill)\*



# 2010



- Upfront Preventive Care \*
- No Lifetime or Annual Limits \*
- Child Guarantee Issue \*
- Pre-Existing condition limitations
- Dependant coverage to age 26

# Preventive Care

- Preventive care benefits are not subject to any member cost sharing
  - Definition of “preventive care” is vague, at best
  - Includes things like
    - “asymptomatic bacteriuria screening in adults,”
    - “adult aortic aneurism screening”
    - more common things like preventive office visits and immunizations
- Things to consider in pricing
  - Members don’t pay deductible on preventive care, but that means they have more deductible to meet on other services
  - Utilization increases due to immediate demand for services
  - Defining these benefits for pricing and for claims payments involves identifying procedure codes and diagnosis codes, etc

# No lifetime or annual limits

- Annual limits are generally not allowed on essential benefits
- The legislation says that HHS will define “essential benefits” that shall include:
  - (A) Ambulatory patient services
  - (B) Emergency services
  - (C) Hospitalization
  - (D) Maternity and newborn care
  - (E) Mental health and substance use disorder services, including behavioral health treatment
  - (F) Prescription drugs
  - (G) Rehabilitative and habilitative services and devices
  - (H) Laboratory services
  - (I) Preventive and wellness services and chronic disease management
  - (J) Pediatric services, including oral and vision care
- All services could arguably fall under this vague definition
  - IVF?
  - Cosmetic Surgery?
  - Weight-loss Surgeries?

**Staho.com**

the daily news source

**November 10, 2010:**

“McDonald’s Health Insurance Plan May Fail Due to New Law”

# “Mini-Med”

The benefit:

- 1.4 million Americans.
- Keeps costs low by limiting annual coverage.
- Expected to be sufficient coverage for most employees, but less than half of all costs.

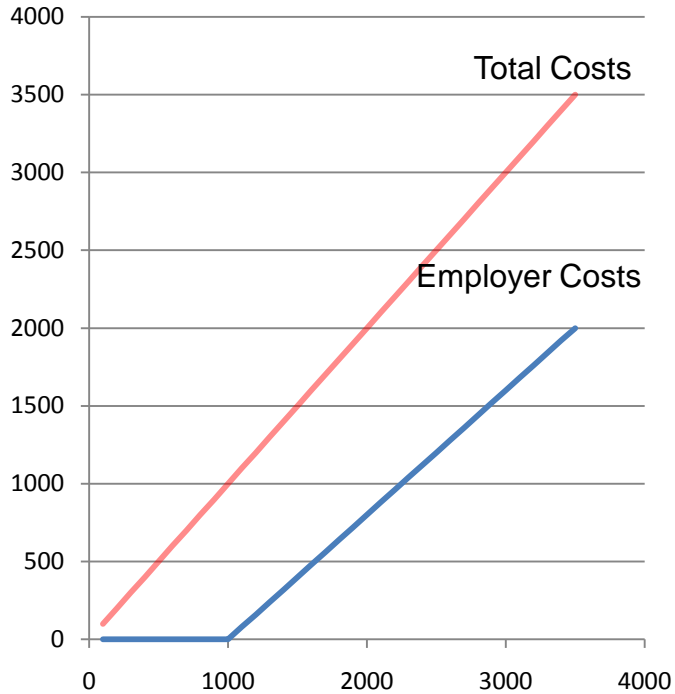
The law: No limits on coverage.

Choices:

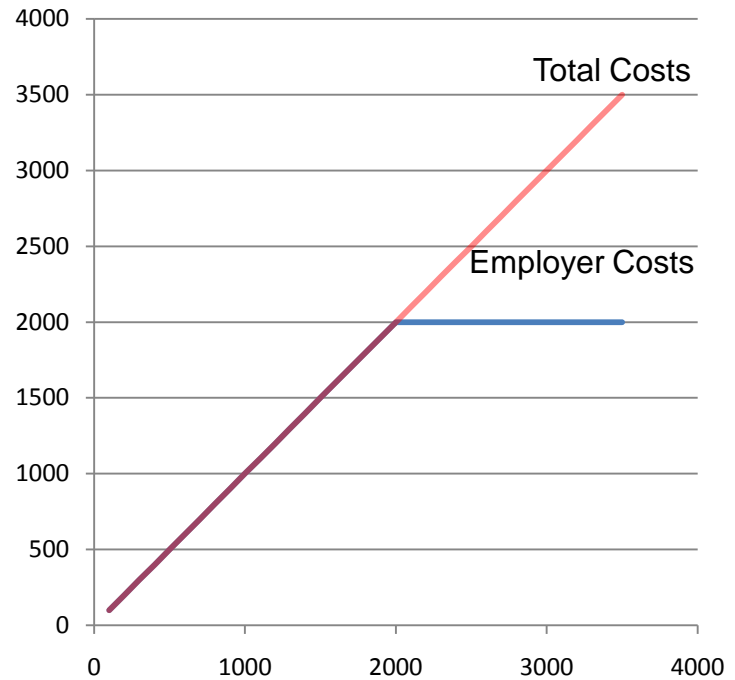
- Waivers
- Loss of coverage.
- Large increases in costs.

# Comparison of Mini-Med to Traditional Insurance

## \$1000 Deductible, 20% Coinsurance Plan

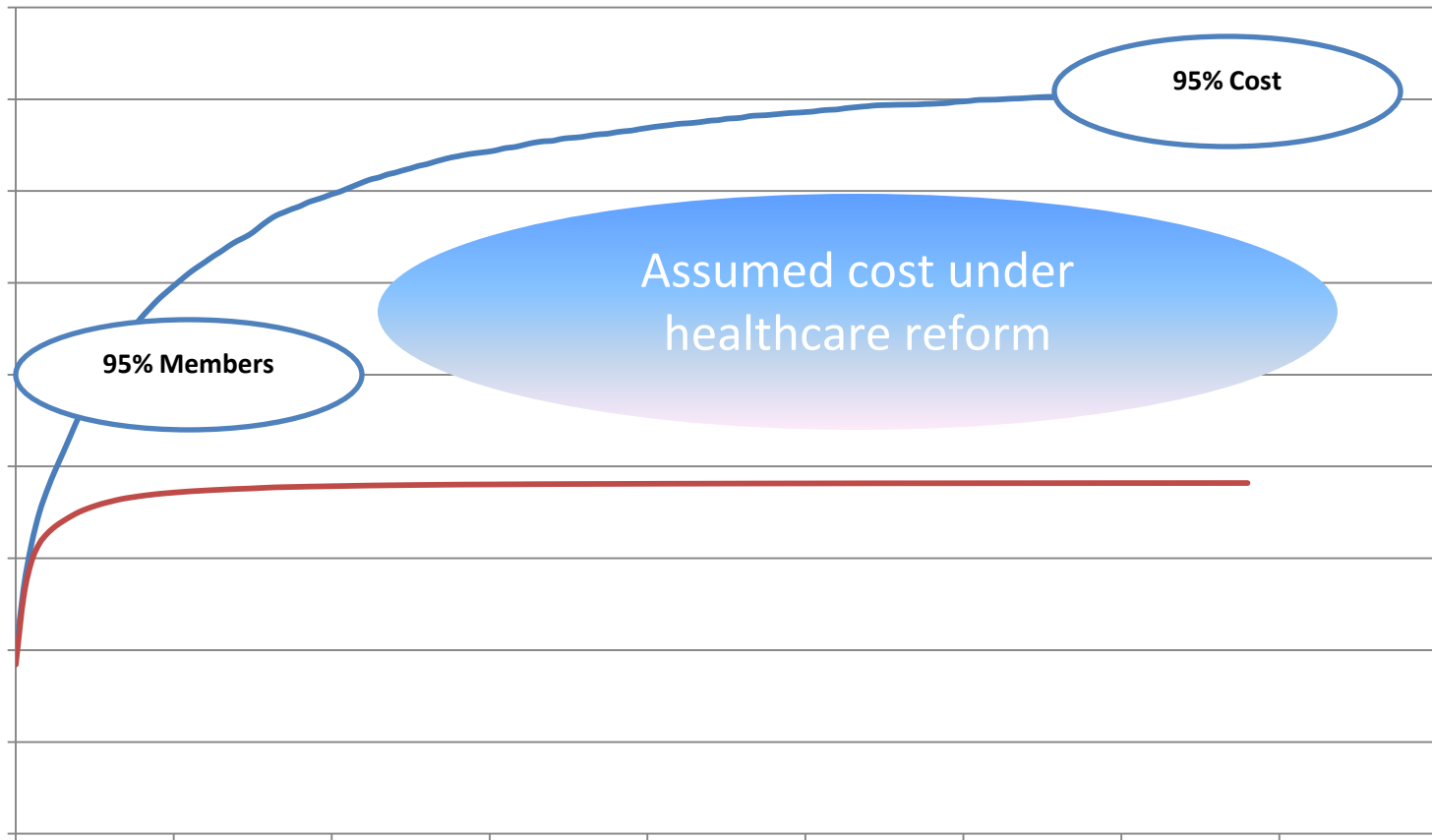


## \$2000 Mini-Med Plan



# Comparison of Mini-Med to Traditional Insurance

## Cumulative Distribution Function: Mini-med Compared to Total Costs



Child Guaranteed Issue, Effective 9/23/2010

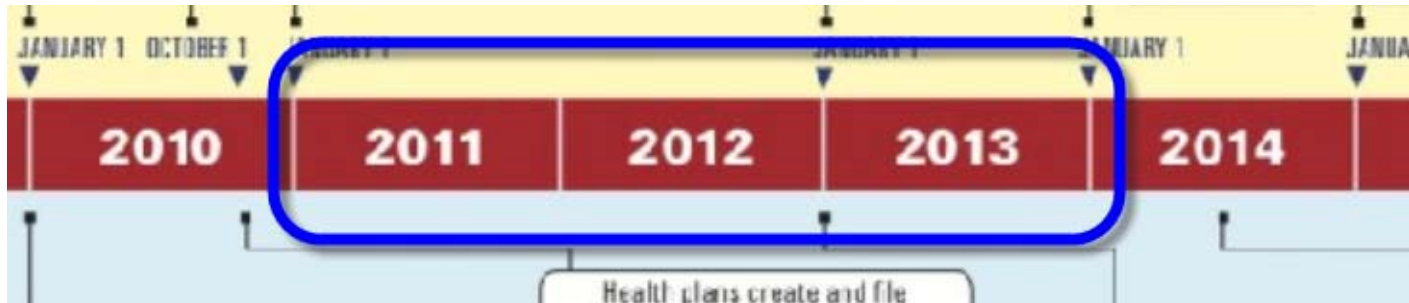


**September 22, 2010:**  
Insurers Stop Selling Child-Only Policies

# Guaranteed Issue: Sources of Risk

- Unhealthy, uninsured children
- Medicaid, CHIP
- Small Group destabilization
- Lack of mandate
- Undefined open enrollment periods

# 2011 - 2013



- Upfront preventive care for seniors
- New Loss Ratio Requirements
  - 85% Large Groups
  - 80% Small and Individual markets
- Changes to Medicare Advantage Program
- Additional funding for Children’s Health Insurance Programs

**Bloomberg  
Businessweek**

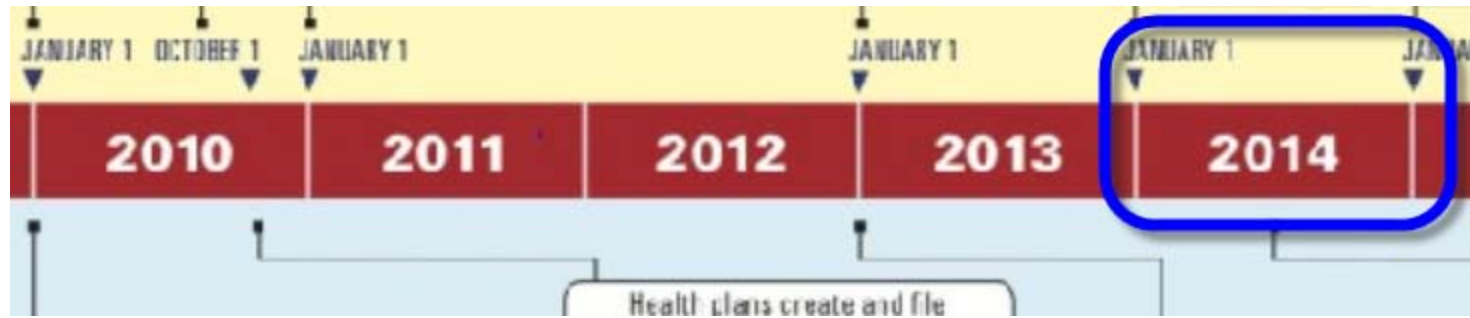
**March 26, 2010:**

AT&T to Book \$1 Billion Cost on Health-Care Reform

# Tax-free subsidies of retirement healthcare expenses went away

- Union contracts for retirement benefits
- Asset pool for Medicare Rx subsidies lost its tax-exempt status.
- Accounting rules require tax changes to be fully realized immediately.
- Est. impact: \$14 billion nationwide

# 2014



- Most interesting changes
- Far reaching impacts

# 2014

- Removal of Risk as a Rating Characteristic\*
  - Compressed Age Bands 3:1
  - Remove gender as a rating characteristic
- Guarantee Issue \*
- Individuals required to purchase or pay a fee
- Establish Health Insurance Exchange
- Tax Credits to make Health Insurance more affordable

# Removal of Risk as a Rating Characteristic

- Sample Age Gender Factors

- Male ratio  $3.5/.4 = 8.7$

- Female ratio  $3.2/.9 = 3.6$

Age Band	Male	Female
20 - 24	0.4	0.9
25 - 29	0.5	1.1
30 - 34	0.6	1.2
35 - 39	0.7	1.2
40 - 44	0.9	1.2
45 - 49	1.2	1.4
50 - 54	1.5	1.7
55 - 59	2.1	2.1
60 - 64	2.7	2.5
65 +	3.5	3.2

- Remove Gender

- Males subsidize females

- Age Bands

- Younger subsidize older

- Impacts will vary by state and market segment



# Rating Impact Example

- Post Reform – Intention



Bob	Sally	Roger	Jim	Mary	John
Age 1.5	Age 0.6	Age 0.6	Age 0.6	Age 1.0	Age 1.5
Risk 1.0	Risk 1.0	Risk 1.0	Risk 1.0	Risk 1.0	Risk 1.0
Gender 1.0	Gender 1.0	Gender 1.0	Gender 1.0	Gender 1.0	Gender 1.0
Elects Coverage	Elects Coverage	Elects Coverage	600% Inc	47% Inc	36% Dec

Premium	\$1,103	\$441	\$441	\$441	\$735	\$1,103
Claims	\$1,530	\$10	\$50	\$10	\$385	\$1,426
Target Claims	\$882	\$353	\$353	\$353	\$588	\$882
Subsidy	(\$648)	\$343	\$303	\$343	\$203	(\$544)

**Bob joins needing to be subsidized, Sally and Rodger join and subsidize Bob; Pool at 80% LR**

# Rating Impact Example

- Post Reform – Risk, Change in mix



Sally  
Age 0.6  
Risk 1.0  
Gender 1.0  
Pay Fee



Roger  
Age 0.6  
Risk 1.0  
Gender 1.0  
Pays Fee



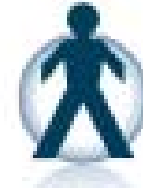
Jim  
Age 0.6  
Risk 1.0  
Gender 1.0  
Pays Fee



Bob  
Age 1.5  
Risk 1.0  
Gender 1.0  
Elects Coverage



Mary  
Age 1.0  
Risk 1.0  
Gender 1.0  
47% Inc



John  
Age 1.5  
Risk 1.0  
Gender 1.0  
36% Dec

Premium	\$1,103	\$735	\$1,103
Claims	\$1,530	\$385	\$1,426
Target Claims	\$882	\$588	\$882
Subsidy	(\$648)	\$203	(\$544)

**Jim leaves; Bob joins needing to be subsidized;  
Pool at 114% LR**

Healthcare Reform impacts on the profession



**National Underwriter**  
THE MOST TRUSTED NAME IN INSURANCE NEWS

**February 9, 2010\*:**

Anthem makes headlines for a filed “39% increase”  
(actual average increase is 25%)

\*ETA Healthcare reform: 6 weeks

**The New York Times**

**CNN Politics**

**AP** Associated Press

**CBSNEWS**

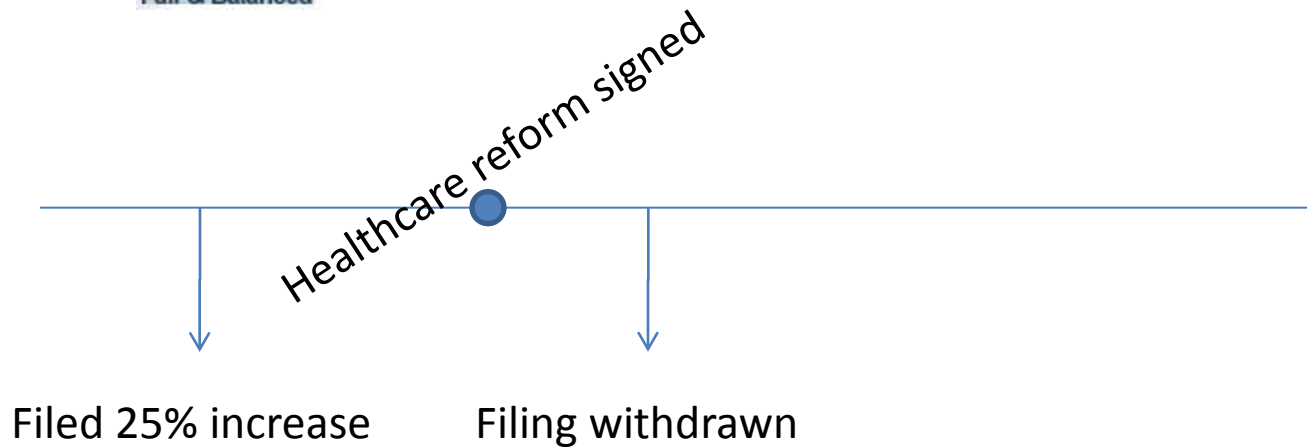
Etc...

**March 23, 2010:**

**Obama Signs Health Care Overhaul Bill**



# April 29, 2010: The filing is withdrawn





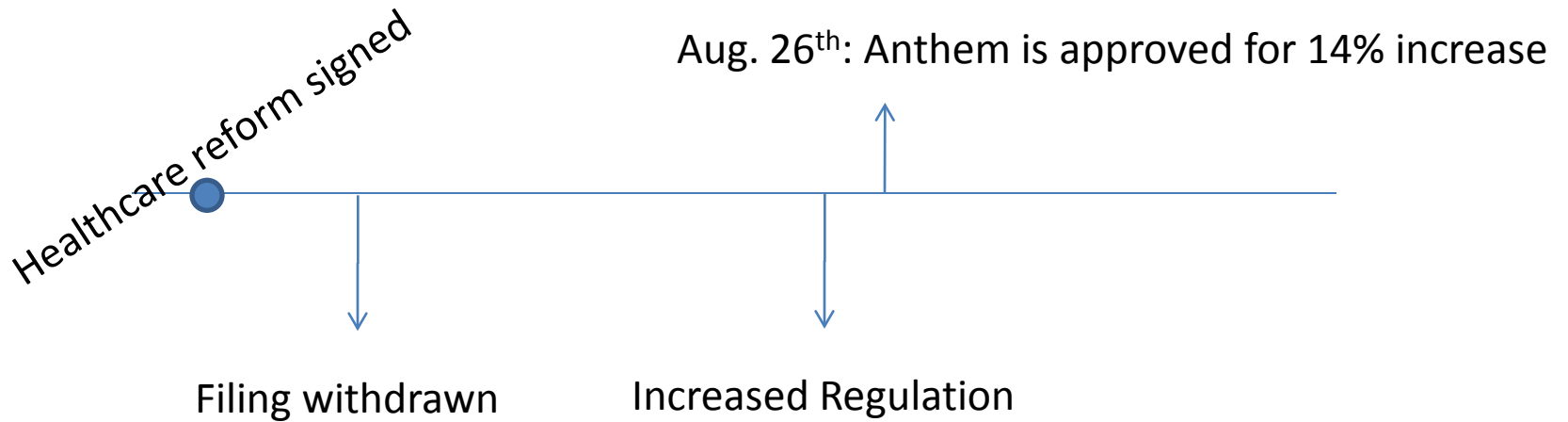
# August 17, 2010: “HHS Spends \$46 Million on Premium Reviews”

Healthcare reform signed

Aug. 26<sup>th</sup>: Anthem is approved for 14% increase

Filing withdrawn

Increased Regulation



# Actuaries in the Public Spotlight

What does it mean?

- Increased public awareness
  - Increased scrutiny by regulators
  - Increased usage of independent review
- = more demand for actuaries

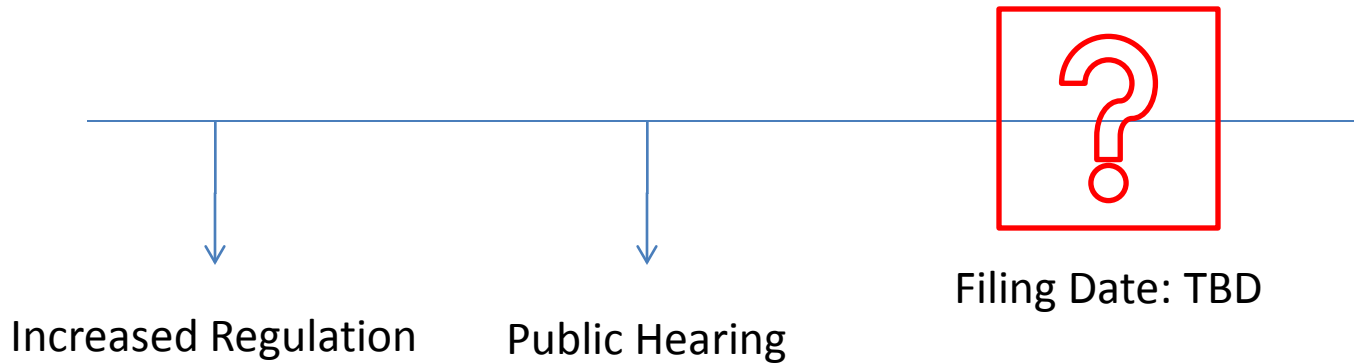
# Will there be an Anthem sequel?

...the sequel continues elements of the original story, often with the same characters and settings.

A sequel can lead to a series, in which key elements appear in a number of stories. Although the difference between more than one sequel and a series is somewhat arbitrary, it is clear that some media franchises have enough sequels to become a series, whether originally planned as such or not.

-wiki

# October 26, 2010: Anthem To Face Hearing On 2011 Health Plan Rates (CT)



# Professionalism is Key

- Professional Code of Conduct
- Actuarial Standards of Practice

# Next Steps

- New Congress
- Temporary Rulings
- Clarifications
- Final Definitions

# Links & Additional Info

HCR visual timeline:

<http://sbkbenefits.com/?p=191>

HCR – written by consumer advocacy group:

<http://www.healthcare.gov/law/about/order/byyear.html>

Complete law (for the super ambitious):

<http://docs.house.gov/energycommerce/ppacacon.pdf>

Kaiser Family Foundation Summary

<http://www.kff.org/healthreform/upload/8061.pdf>

# Questions

