Benefit and Cost Complexity in Health Reform – From Concept to Reality

Texas Association of Health Plans

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Agenda

Drivers of healthcare costs and complexities

Reform implications - examples

Potential impact to health plans

Overview of Current Practice

- Health insurance premium rates must generate enough revenue to cover:
  - Cost of covered medical services
  - Carrier's administrative costs
  - Marketing expenses, i.e. commissions
  - Premium taxes
  - Contribution to surplus
- Cost of covered medical services is a function of:
  - How medical care services are utilized ('utilization rates')
  - Mix of services used
  - How healthcare providers are paid
  - Member cost-sharing

Estimation of Utilization Rates

- Actuarial cost models
  - Utilization rates by type of service
  - Based on prior history
  - Key question: how representative is history?
  - Need to consider
    - Age, gender, geographic location, health status of population insured
    - Member cost-sharing
    - Managed care effectiveness
    - Trends

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Sample Range of Costs Among Different Populations

Age/Gender	PMPM for MMI PPO*	Ratio to labor force
LABOR FORCE	$275	1.00
MALE, AGE 30	$155	0.56
FEMALE, AGE 60	$717	2.60

*For the U.S. as a whole.

Sample Range of Costs by Geographic Location

Area and Age/Gender	Measure	MMI PPO	Alternate PPO	HMO-Style Plan	Popular FEHBP Plan	HDHP
U.S. LABOR FORCE IN HOUSTON, TX	PMPM	$301	$235	$346	$312	$157
U.S. LABOR FORCE IN AUSTIN, TX	PMPM	$268	$208	$310	$278	$135
U.S. LABOR FORCE IN DALLAS, TX	PMPM	$280	$218	$323	$290	$144
U.S. LABOR FORCE IN ODESSA, TX	PMPM	$231	$179	$268	$240	$116
U.S. LABOR FORCE IN LUBBOCK, TX	PMPM	$354	$278	$403	$365	$192

Cost differentials based on billed charge and utilization differences from Milliman's *HCGs*, for illustration purposes only.

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The Importance of Health Status

- Premise of health insurance is a representative mix of individuals to "pool the risk"
- In the US, the health insurance system is voluntary
- Experience has shown that people are more likely to participate if they perceive an immediate need (i.e., have a health problem)
- Viability means need to work to get this representative mix

Risk selection/risk management

- Small group and individual market
  - Underwriting ‘screen’
  - Rating differences
  - Pre-existing condition limitations
- Large group market

Impact of Benefit Plan Design

- Benefit plan design has an important impact on health costs
  - Member cost sharing
  - Impact on patient behavior
- Actuarial fact: benefit ‘richness’ impacts utilization rates
  - Lower copays: less incentive to make cost-effective decisions
  - Higher copays: more cost-conscious decisions
  - Example: $100 ER copay, $20 OV copay

The Complexity of Benefit Plan Design

Coverage Provisions	Service Category	MMI PPO*	Alternate PPO	HMO-Style Plan	Most Popular FEHBP Plan**	HDHP
COPAYS	OFFICE VISITS	$20	$40	$15	$20	NA***
	PHY. EXAMS & WELL CHILD	$20	$0	$0	$20/$0	$0
	INPATIENT HOSPITAL	NA***	NA***	$250	$200	NA***
	OUTPATIENT SURGERY	NA***	NA***	$125	NA***	NA***
	EMERGENCY ROOM	$75	$100	$75	$0/NA	NA***
	PRESCRIPTION DRUGS	$10/25%/30%	$10/$40/50%	$10/20/35	20%/30%	NA***
DEDUCTIBLE	ALL OTHER SERVICES	$500	$1,500	NA***	$300	$5,000
COINSURANCE	ALL OTHER SERVICES	15%	25%	NA***	15%	30%
OUT OF POCKET LIMIT	ALL OTHER SERVICES	$3,500	$7,500	NA***	$5,000	$10,000

* Similar in plan design characteristics to the *Milliman Medical Index* published by Milliman on May 18, 2009.
** The provisions shown for the most popular FEHBP plan are substantially simplified. For example: maternity is paid without deductible or coinsurance, injuries are paid in full but medical emergencies are not, children are treated differently from adults with regard to preventive care, and some dental benefits are provided.. For more information on the complexity of the plans offered in FEHBP, to the http://opm.gov/insure/health/planinfo/index.asp.
*** NA signifies that the form of cost sharing indicated does apply to this particular plan of benefits.

Sample Range of Costs Among Different Plans

Plan design	PMPM value*	Ratio to MMI PPO
MMI PPO	$275	1.00
ALTERNATE PPO	$214	0.78
HMO-STYLE PLAN	$317	1.15
MOST POPULAR FEHBP PLAN	$285	1.04
HDHP	$141	0.51

*For the U.S. as a whole and a demographic cross-section of the labor force population (including spouses and dependent children).

Provider Payment Rates

- Usually, these are negotiated contractual rates
  - Per diems or DRGs for inpatient hospitals
  - % of Medicare for physician
  - % of AWP for drugs
- This gets trickier when the rates are less tied to a standard
- Key point: provider payment rates directly impact premiums

Milliman Healthcare Reform Briefing Paper

Understanding Healthcare Plan Costs and Complexities

Thomas D. Snook, FSA, MAAA; **Robert H. Dobson**, FSA, MAAA;
Ronald G. Harris, FSA, MAAA

While simple answers to the question of how best to reform healthcare would be convenient, there is nothing simple about either the problems or designing a better system. A thorough understanding of health insurance costs, and the complex drivers of those costs, is essential to crafting meaningful and sustainable reform. The purpose of this paper is to illustrate and clarify some of the intricate interworkings of the factors that cause this complexity, while highlighting the need for an actuarially sound approach to healthcare reform that can consider these variables alongside one another.

Health benefit plans are complex in certain ways because they need to address various dynamics–the need for true insurance against catastrophic events, the balance between premium levels and out-of-pocket cost-sharing costs, the role of healthcare as a tax-deductible employee benefit in the U.S. system, the economic

Variety in healthcare plan design enables consumers to make choices based on their own personal needs and preferences, and it allows plan sponsors and payors to manage costs and undertake innovation over time. This variety, and the resulting complexity that it necessarily entails, can be found in most parts of the American private health insurance market. Table 1 demonstrates this complexity by indicating some of the variables that contribute to differences in plan design and plan cost. Financial complexity is not unique to commercial insurance–it is also present in our large public programs such as Medicare, as well as in many other mature health markets around the globe, such as in Germany and the Netherlands.[1]

How does the design of healthcare plans, with their inherent complexity, fit into the larger health reform picture?

www.milliman.com/perspective/healthreform

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Now: Reform

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Reformaform Issue #1 – Rating and Underwriting Restrictions

- Severe restrictions on pre-existing condition limitations
- Guaranteed issue requirement
- Community rating:
  - Limitations on age and gender rating bands
  - Limitations on experience rating bands

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Reform Issue #2 – Coverage Mandate and Subsidies

- Require individuals and/or employers to buy health insurance
- Provide subsidies for lower income people (“working poor”) who have affordability issues
- Provide penalties for everyone else for not participating

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Reform Issue #3 – Benefit Design Requirements

- Mandating certain benefit levels
- “Actuarial value” benchmarks
- Richer than the current marketplace?
- Freedom to innovate?

Calculated Actuarial Value for Sample Plans Covering U.S. Labor Force

Plan design	Ratio
HMO-STYLE PLAN	.91
MOST POPULAR FEHBP PLAN	.83
MMI PPO	.80
ALTERNATE PPO	.65
HDHP	.48*

*These plans are often accompanied with a health savings account (HSA) an important caveat in comparing the HDHP alongside other benefits.

Reform Issue #4: Young Invincible Provision

- Less expensive catastrophic plan
- Separate pool of risks
- Impact on the remaining risks/costs

Reform Issue #5 – The Public Plan Option

- Government sets up a competing health plan
- Concerns about fairness issues
  - Provider payment levels
  - Solvency requirements
- “Back door to single payer system”?
- What about a “co-op”?

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INSIGHTS AND ANALYSIS FOR A SYSTEM IN TRANSITION

Comprehending the compromise: Key considerations in understanding the "co-op" as an alternative to the "public plan"

THIS INTERVIEW

June 26, 2009

Senator Kent Conrad recently introduced what he characterized as a compromise on the contentious issue of having a public plan under healthcare reform: a healthcare co-op. This interview with Milliman

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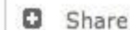
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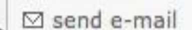
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Potential Impact to Health Plans

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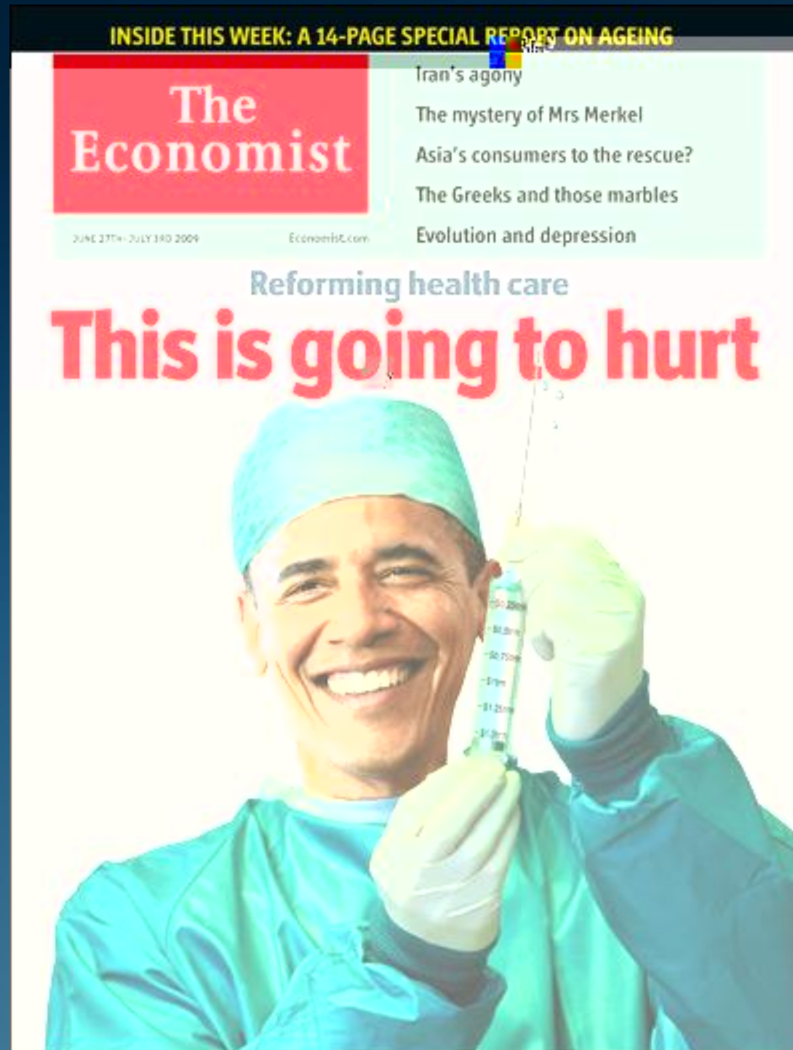

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Risk Mix, Adverse Selection, and Cost

- Removal of underwriting, community rating, and pre-existing condition limitations will increase health insurance costs
  - More costly individuals entering the insurance pool
  - “Healthy” lives will see premium increase; moderate to very unhealthy lives will see premiums decrease
  - Younger insureds will see increase; older will see decrease
  - Impact will vary significantly from state to state

Risk mix cont.

- Effectiveness of coverage mandate is key
  - 100% coverage of uninsureds seems unlikely
  - Compare 30% covered to 70% covered
    - Reduction in expected cost increase of up to 10%
    - Again, depends significantly on local market conditions

Healthy Indiana

- How will the currently uninsured consume healthcare once insured?
- Healthy Indiana Plan
  - No coverage mandate
  - Drug data shows materially higher morbidity
  - Preliminary utilization and costs materially higher
  - Early months of coverage significantly higher cost than later
- Presence of an effective coverage mandate could materially change these numbers
- Full paper on www.milliman.com/perspective/healthreform

Benefit Level Mandates

- Requirements for a certain level of benefits could cause rates to rise
- Current market
  - High Deductible Health Plans
  - "Lean" coverage in individual market

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Membership and Regulatory Impact

- Coverage mandate: substantial growth in enrollment
- Health plans view this as a good thing
- What role for the government subsidy?
- Potential operational issues initially
- Plans will need to keep an eye on their capital levels
- But... what if there is a public plan?

Provider Contracting

- Influx of membership may give plans more negotiating clout
- A public plan might change everything

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Summary

- Current practices in health insurance largely driven by voluntary nature of coverage
- Certain reform proposals seem likely to cause costs to increase
- Effectiveness of a coverage mandate is key
- Public plan is the 800 lb gorilla
- We're entering uncharted waters