



OVERVIEW OF THE WASHINGTON MARKETPLACE DURING HEALTH REFORM IMPLEMENTATION

Presented by DJ Wilson

wilson strategic
communications

March 8, 2013



DISCUSSION OUTLINE

- The basics of reform in 2013
- Greater detail on reform implementation
- Market activity
- Extrapolating general recommendations



PREFACE

- **Wilson Strategic Communications**
 - Healthcare strategy and public affairs firm
 - Work with clients in 7 states
 - “Light up ahead” – a train or the end of the tunnel
- **DJ Wilson**
 - Worked for 3 US Senators, 1 member of Congress
 - Published 2 books on state-level health policy
 - 15 years in public policy; 5 years teaching at UW and community colleges
 - MA, Johns Hopkins Univ; BA Gonzaga Univ



PREFACE

- Present, discuss, challenge
 - 10-20 minutes of presentation per section
 - Questions for information
 - Challenge the thinking – excellent tool for learning
- WA, AK, OR, ID
 - Happy to extend the conversation and/or compare to other state efforts if interested



REFORM 101: THE BASICS

CAPE SABLE

STATE OF



SIX TRUISMS IN HEALTHCARE

- There is no other industry – including defense – that is as heavily impacted by government
- This is the greatest time of upheaval in healthcare since the creation of Medicare
- Healthcare is a culture of specialists
- Politics is a culture of generalists



SIX TRUISMS IN HEALTHCARE

- Healthcare has the haves; government is the have-nots – don't underestimate the envy
- "This might be one of the last opportunities for the marketplace — providers and insurers — to sort out solutions. The next logical step, which many of us have not wanted to consider, is a single-payer system."

• *Rick Cooper, CEO Everett Clinic*



HOW WE GOT HERE

- 5 committees, 5 bills
 - Only one Republican vote in committee: Sen. Olympia Snowe, now retired
 - Little to no vision from Pres. Obama – not “Obamacare” but perhaps “Baucuscare”
- The power of one vote: Sen. Ted Kennedy
 - Sen. Scott Brown & Massachusetts
 - The impact on finalizing the final bill



HOW WE GOT HERE

- Goals
 - “Bend the cost curve of health care”
 - Get coverage for all citizens
 - Not add to the deficit
- Strategies
 - Expansion of Medicaid
 - Developing insurance exchanges to foster a competitive market with transparency



MEDICAID EXPANSION

- Medicaid expansion
 - All citizens below 133% (or 100%) of FPL
 - Will effectively end cost shift – undocumented residents a big exception – from uninsured
 - This cost shift equals about \$1,100 per family premium per year
 - Federal government will cover 100% for first three years; sliding down to 90% in 2020
 - In Washington:
 - Will cost state about \$210m per year to cover additional 325,000 citizens after 2019
 - Amounts to \$646 per person per year



EXCHANGES

- Insurance Exchange
 - An online marketplace where 5 plan types will be offered: metallic and catastrophic
 - If you want to offer something in WA non-exchange market, you'll have to stay in the same bands as identified on the exchange
 - If you're in commercial, you'll have to offer a basic plan as well – Bronze – on the exchange
 - Must be operational Jan 1, 2014
 - Enrollment begins Oct 1, 2013
 - Uses “Navigators” to help consumers



EXCHANGES

- Insurance Exchange
 - Downward cost pressure: middlemen reduced, transparency for consumers, end of cost shift
 - Upward pressure: operational costs of Exchange, richer benefits than current individual, small group market
 - **Net: 35-70% cost increase in premiums**



EXCHANGES

- Transparency
 - An exchange will commoditize insurance products by forcing products into a band based on price
 - Metallic bands: platinum, gold, silver, bronze
 - Benefits will be largely standardized
 - Consumer ratings will be important
 - Plans will only be able to differentiate based on:
 - Brand equity
 - Provider networks
 - Cost
 - Customer service

The background of the slide is a warm-toned, sepia-style image. In the upper left corner, there is a close-up of a compass rose with directional markers for North (N), South (S), East (E), and West (W), along with intermediate directions like NE, SE, SW, and NW. Below the compass, a portion of a map is visible, showing geographical outlines and some text, including the words "CAPE" and "SAR". The overall aesthetic is that of an old, weathered document or map.

EXCHANGES

- **Essential Health Benefits**
 - Ambulatory patient services
 - Emergency services
 - Hospitalization
 - Maternity and newborn care
 - Mental health & substance abuse disorder services
 - Prescription drugs
 - Rehabilitative and habilitative services and devices
 - Laboratory services
 - Preventive and wellness services and chronic disease management
 - Pediatric services, including oral and vision care



EXCHANGES

- Premium support
 - Subsidies up for those between 100% and 400% of FPL
 - Can't be eligible for Medicare
 - Can't be eligible for an employer plan, with some important exceptions for smaller businesses – 96% of firms in US

EXCHANGES

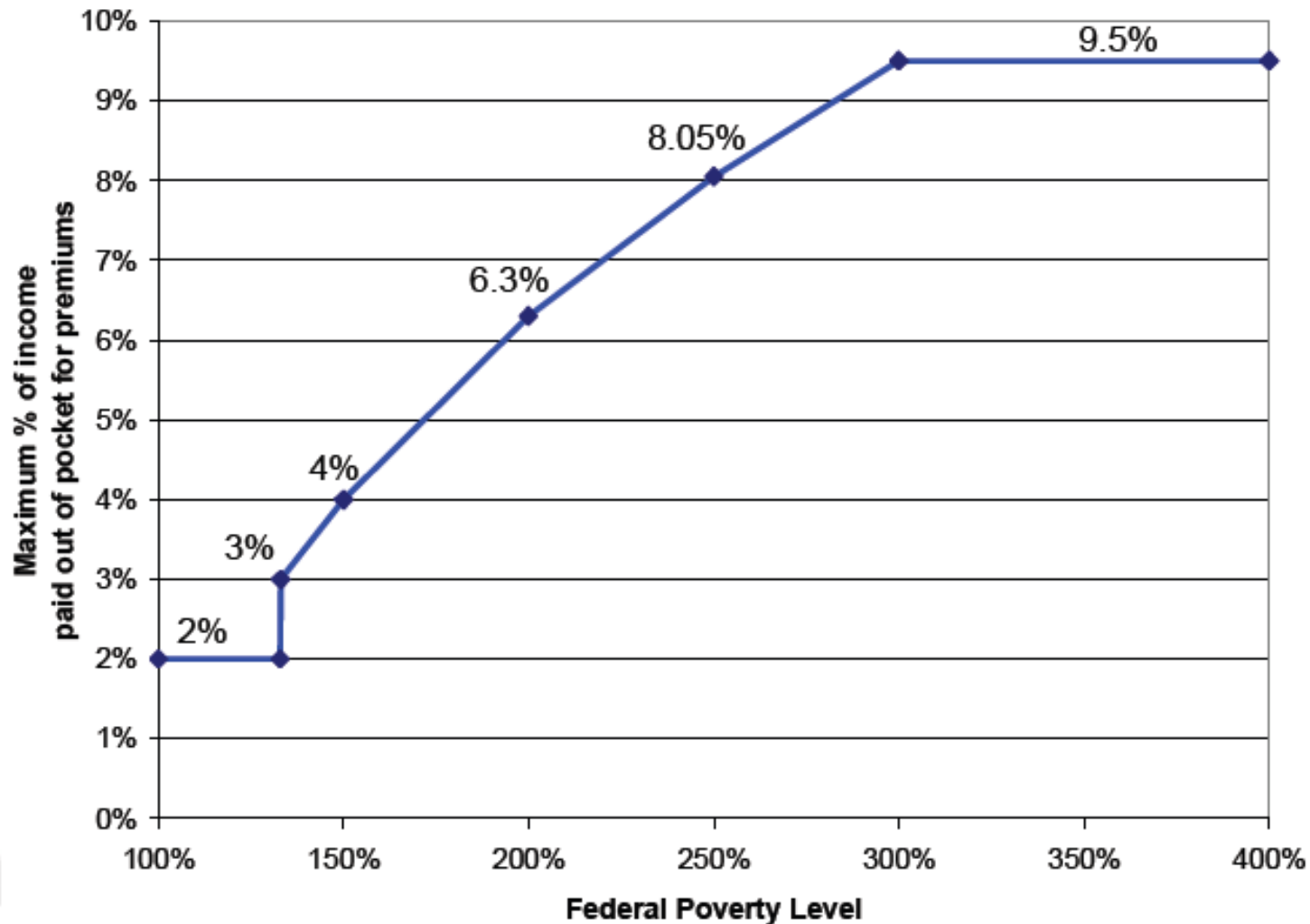
2013 Poverty Guidelines for the 48 Contiguous States and the District of Columbia

| Persons in family/household | Poverty guideline | 400% of poverty guideline |
|--|--------------------------|--------------------------------------|
| 1 | \$11,490 | \$45,960 |
| 2 | 15,510 | \$62,040 |
| 3 | 19,530 | \$78,120 |
| 4 | 23,550 | \$94,200 |
| 5 | 27,570 | \$110,280 |
| 6 | 31,590 | \$126,360 |
| 7 | 35,610 | \$142,440 |
| 8 | 39,630 | \$158,520 |

For families/households with more than 8 persons,
add \$4,020 for each additional person.

EXCHANGES

Figure 2. Maximum Out-of-Pocket Premiums for Eligible Individuals, by Federal Poverty Level (FPL)



The background of the slide features a vintage-style map with a compass rose in the upper left corner. The compass shows cardinal and intercardinal directions (N, NE, E, SE, S, SW, W, NW) and degree markings. The map has a yellowish, aged appearance with some text like 'CAPE SABLE' and 'STATE OF' visible. The title 'EXCHANGES' is centered in a large, blue, serif font.

EXCHANGES

- **Risk Corridor**
 - Individual, small group in exchange for 2014-2016
 - 3% +/- on MLR
- **Reinsurance**
 - Assessment on all plans and self insured products
 - Rules are problematic for low cost, healthy states
- **Risk adjustment:**
 - Assessment based on relative risk of patient population
 - Both inside and outside of exchange

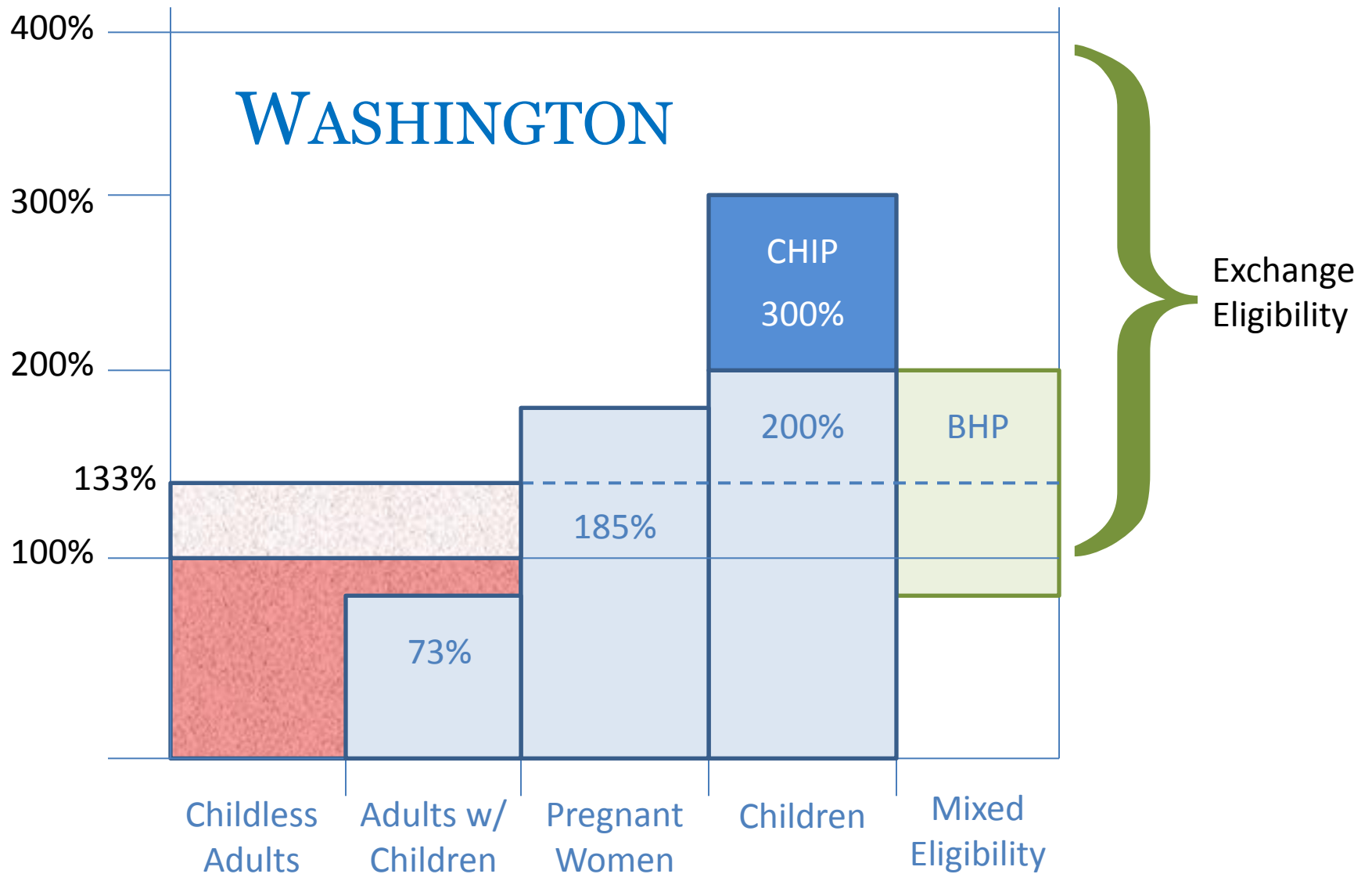


QUESTIONS ON THE BASICS?

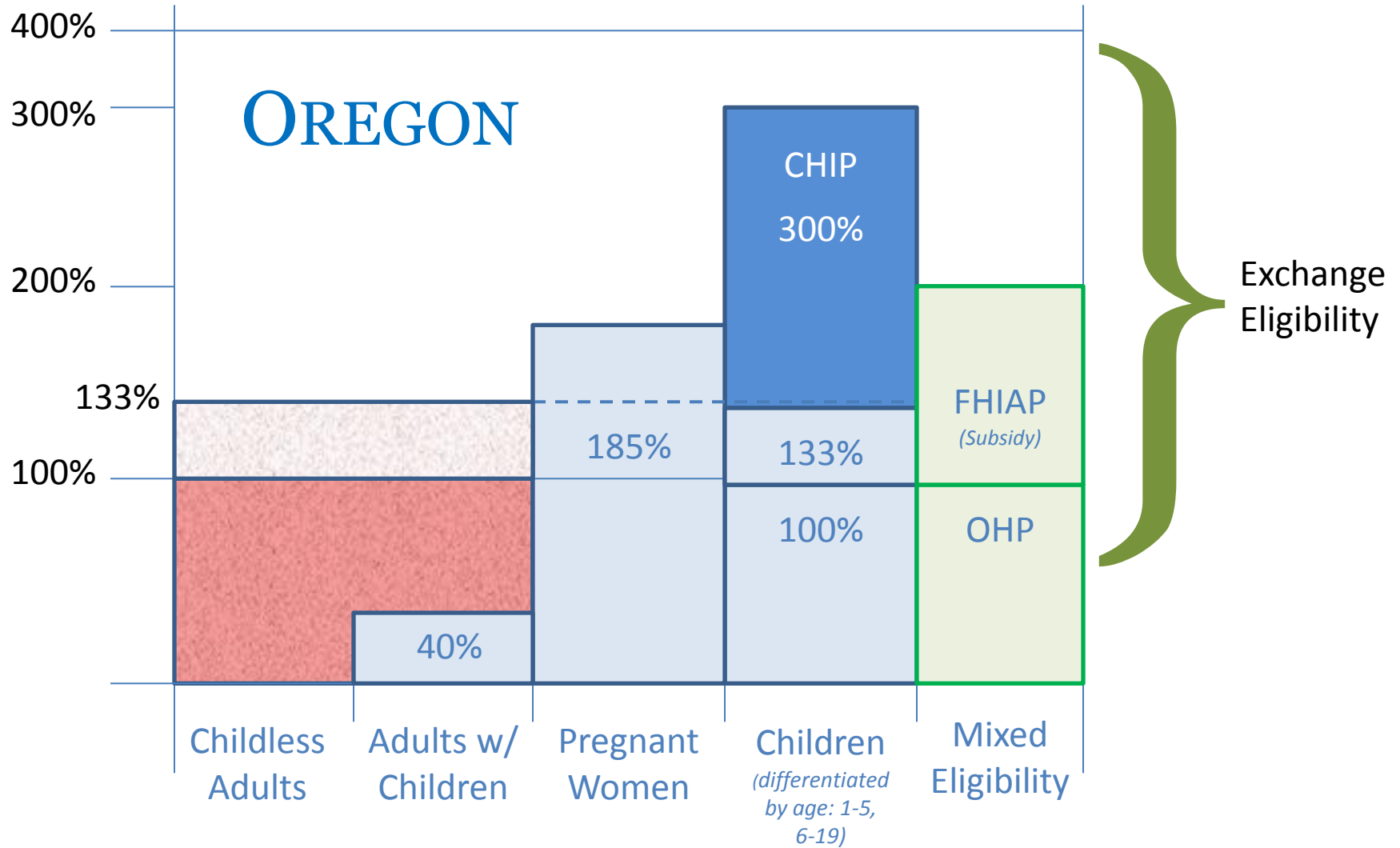


MORE DETAIL OF IMPEMENTATION

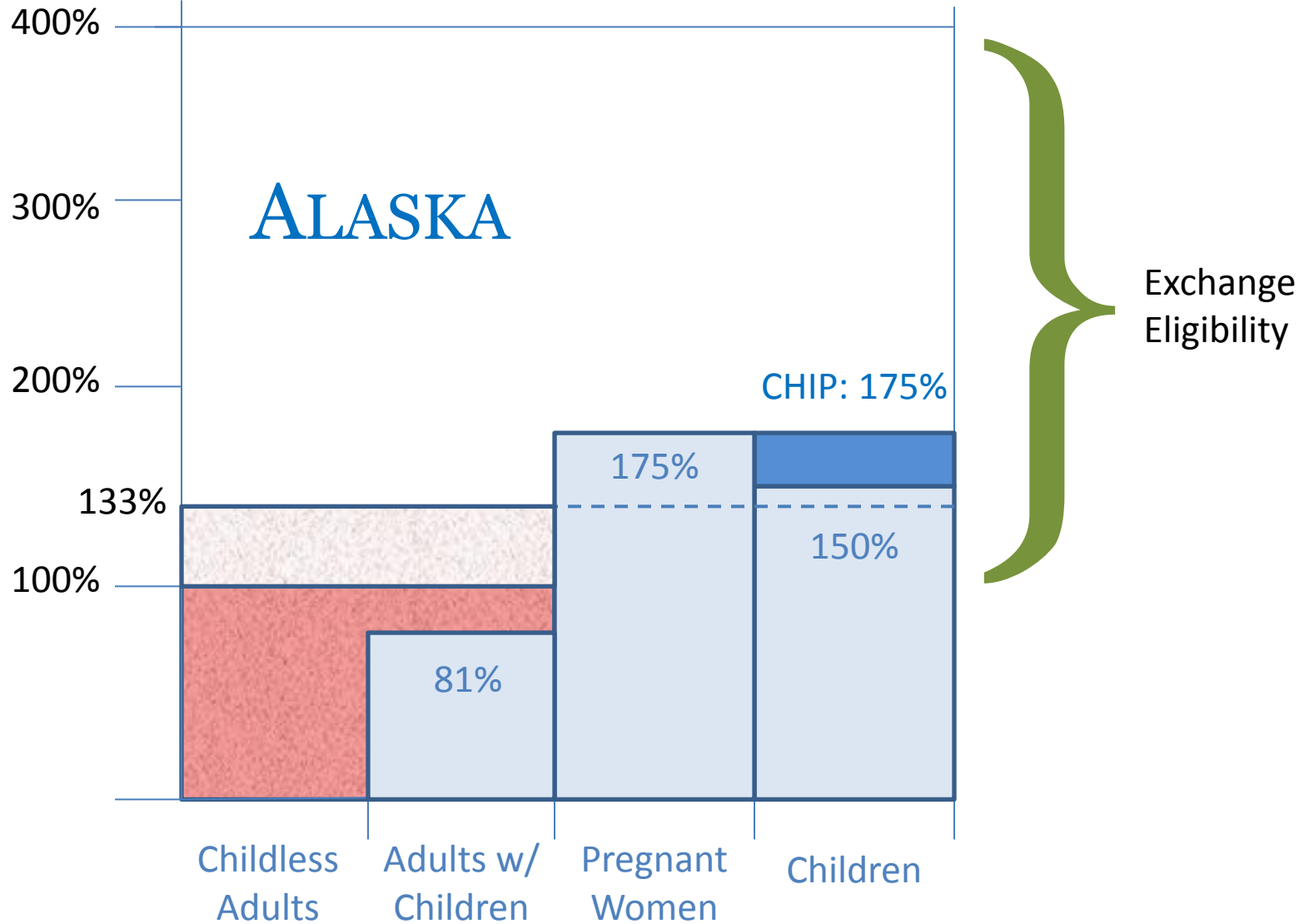
MARKET STRUCTURE



MARKET STRUCTURE



MARKET STRUCTURE



WASHINGTON & OREGON



washington
healthplanfinder

powered by the Washington Health Benefit Exchange



**COVER
OREGON**



WASHINGTON & OREGON

- Significant federal grant funding
 - WA: \$151.7m
 - OR: \$291.2m
 - Must be sustainable by Jan 1, 2015
- Both recently received federal certification



WASHINGTON & OREGON

- Both actively engaging health plans for enrollment
 - WA: 13, 7, 4 plans submitted LOIs
 - OR: 15 and 13 plans submitted apps
- Different approaches to funding
 - WA: Undetermined; bill to add a fee to plans operating on the exchange to fill shortfall after premium tax collected on premiums on exchange
 - OR: Admin fee for plans on Exchange capped at 2.5% of premium

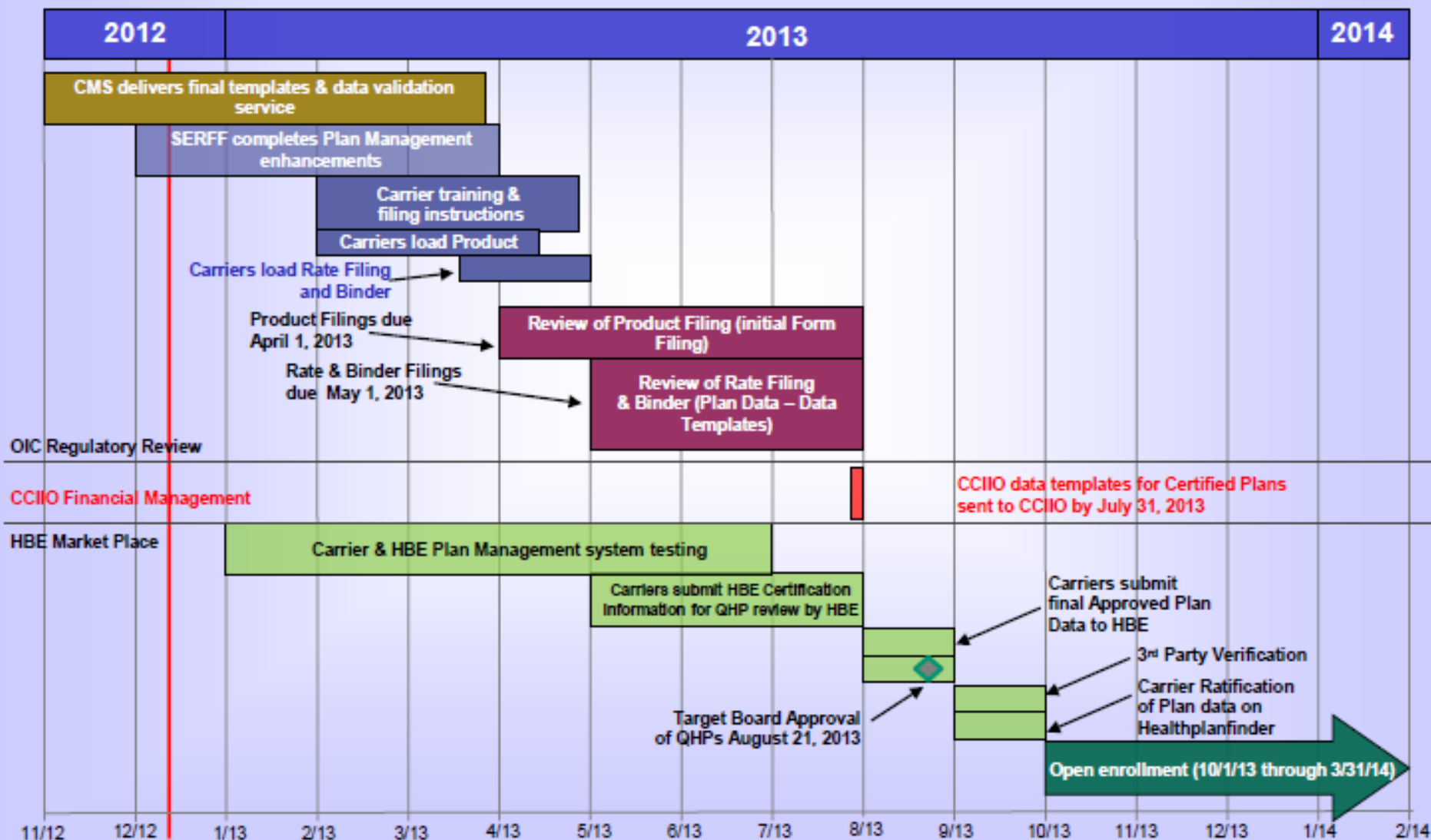
WASHINGTON

2013 Functional Expense by Quarter (000's)

| | Q1 | Q2 | Q3 | Q4 | TOTAL | <i>Percent of Total</i> |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|-----------------------------|
| OPERATING EXPENSES | | | | | | |
| Salaries & Benefits | \$ 3,056 | \$ 3,056 | \$ 3,056 | \$ 3,056 | \$ 12,223 | 17% |
| Marketing & Advertising | 98 | 1,734 | 1,694 | 1,734 | 5,260 | 7% |
| Consulting & Professional Service | 2,504 | 2,504 | 2,504 | 2,504 | 10,017 | 14% |
| IT Infrastructure & Communications | 125 | 149 | 137 | 137 | 549 | 1% |
| General & Administrative | 350 | 350 | 350 | 350 | 1,399 | 2% |
| Facilities Related | 1,666 | 466 | 466 | 466 | 3,063 | 4% |
| Systems Related | 15,654 | 5,670 | 13,514 | 4,893 | 39,730 | 55% |
| TOTAL OPERATING EXPENSES | \$ 23,452 | \$ 13,929 | \$ 21,720 | \$ 13,140 | \$ 72,241 | |
| <i>Percent of Total:</i> | 32% | 19% | 30% | 18% | | 100% |



Plan Management Timeline (draft version 12/13/12)



OREGON

Oregon Health Insurance Enrollment, 2010

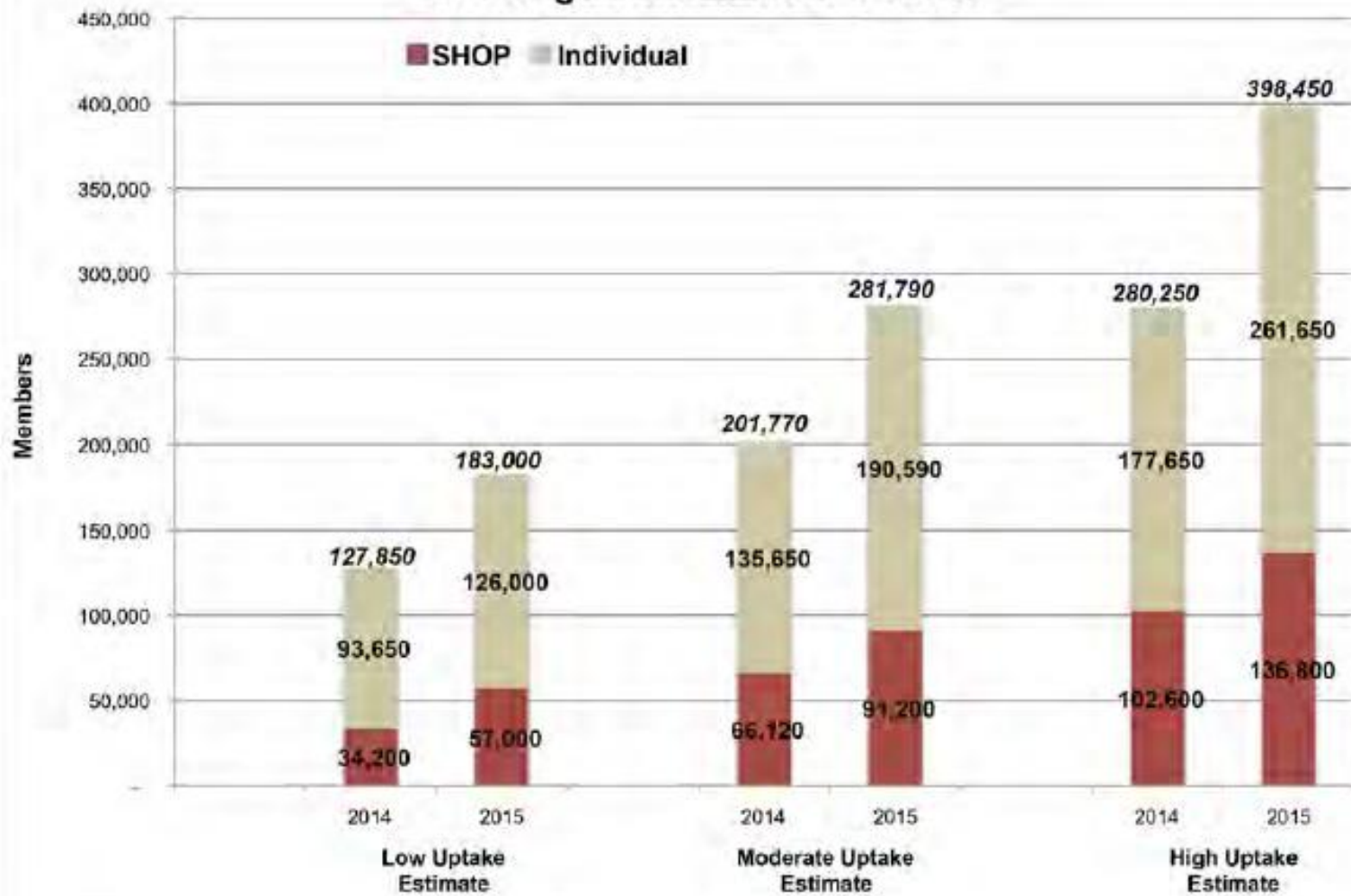
| | | |
|---|------------------|--------------|
| Oregon Population** | 3,749,000 | |
| Commercial Health Insurance* | | |
| Individual | 174,000 | 4.6% |
| Portability | 19,000 | 0.5% |
| Small Group 2-50 | 210,000 | 5.6% |
| Oregon Medical Insurance Pool | 14,000 | 0.4% |
| Large Group Over 50 Fully Insured | 634,000 | 16.9% |
| Associations and Trusts | 178,000 | 4.7% |
| Total Covered Under State Regulation | 1,229,000 | 32.8% |
| Large Group Self-InsuredⓄ | 576,000 | 15.4% |
| Federal Health Care Programs | | |
| Medicare | 621,000 | 16.6% |
| Medicaid | 550,000 | 14.7% |
| Total Covered Under Federal Regulation | 1,171,000 | 31.2% |
| Uninsured★ | 636,000 | 17.0% |

These enrollment estimates do not total 100 percent of Oregon's population because the numbers are rounded to the nearest thousand and come from several sources.

Source: [Cover Oregon Business Plan](#)

OREGON

Exchange Enrollment Scenarios





QUESTIONS ON THE DETAIL?



MARKET ACTIVITY



MARKET ACTIVITY

- Plan-provider integration
 - Plans are moving to align closely with provider partners, particularly hospitals
 - Group Health – Providence
 - Premera – Providence
 - Narrow provider networks for exchange



MARKET ACTIVITY

- Exchange networks at Medicaid rates?
 - United, Medicaid plans using an automatic addendum contract to extend Medicaid network on to the Exchange
 - Premera trying to contract at Medicaid rates, but backing off
 - Part of a larger homogenization of Medicaid and what we currently think of as the commercial marketplace



MARKET ACTIVITY

- Regence shifting to Bridgespan
 - Strategy to limit the potential downside from exchange activity
 - Reflects a longer term trend by Cambia to limit engagement of the insurance market



MARKET ACTIVITY

- **WA: Premera is in transition**
 - Launching a Medicare Advantage plan with Providence managing the claims, UM on back end
 - Not participating in small group market on the exchange

MARKET ACTIVITY

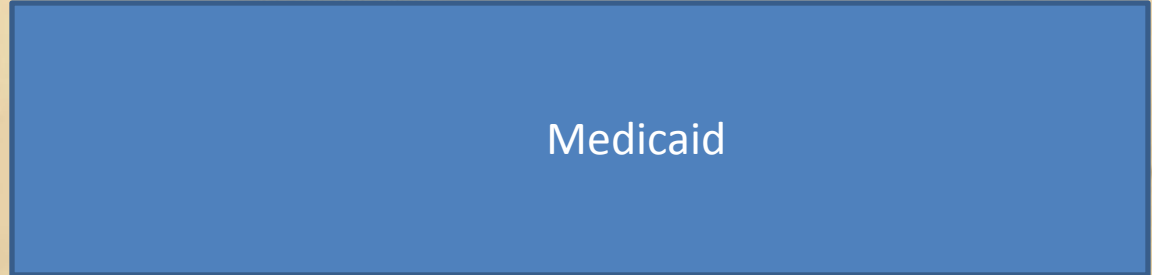
**GOVERNMENT
PURCHASED
HEALTH CARE
IN BLUE**

Age

Elderly

Working Age

Young



Medicare

Commercial

Self-insured

Medicaid

Undocumented

MARKET ACTIVITY

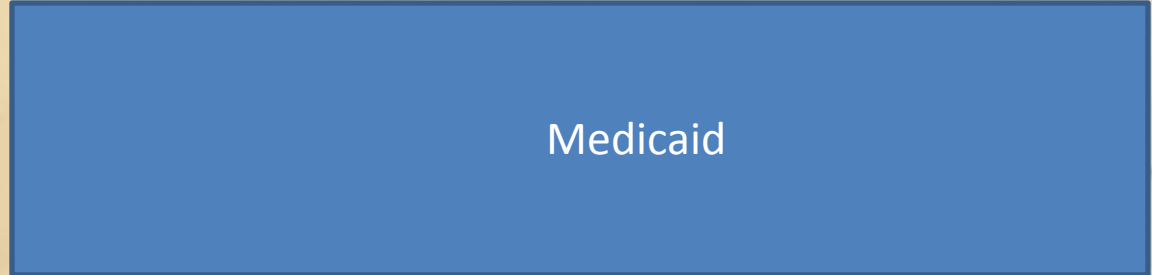
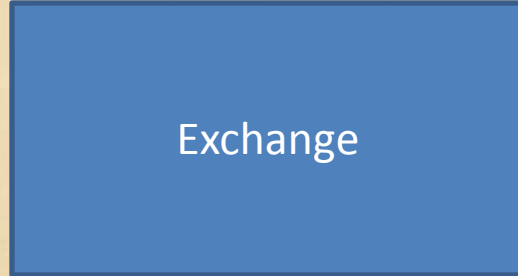
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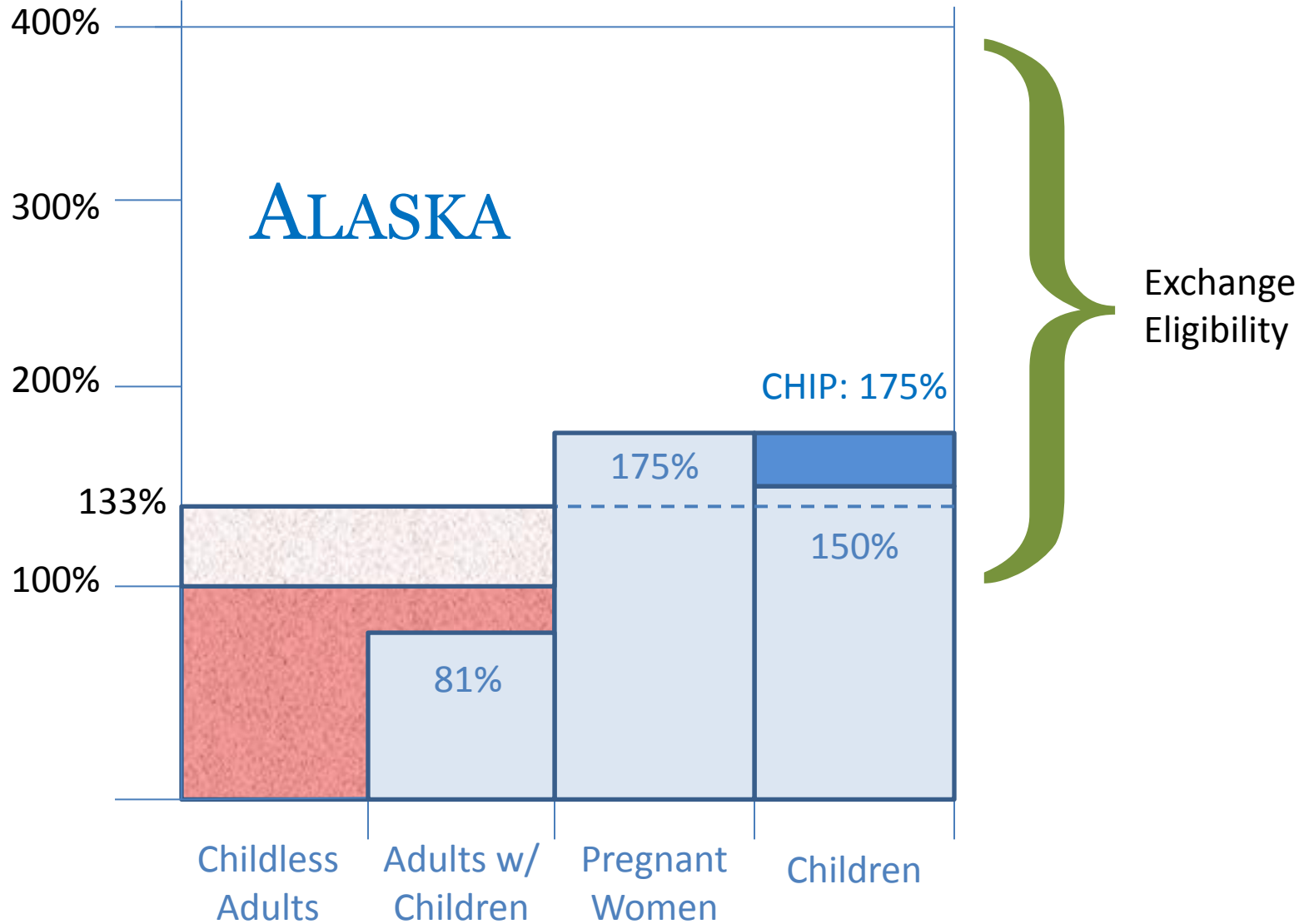




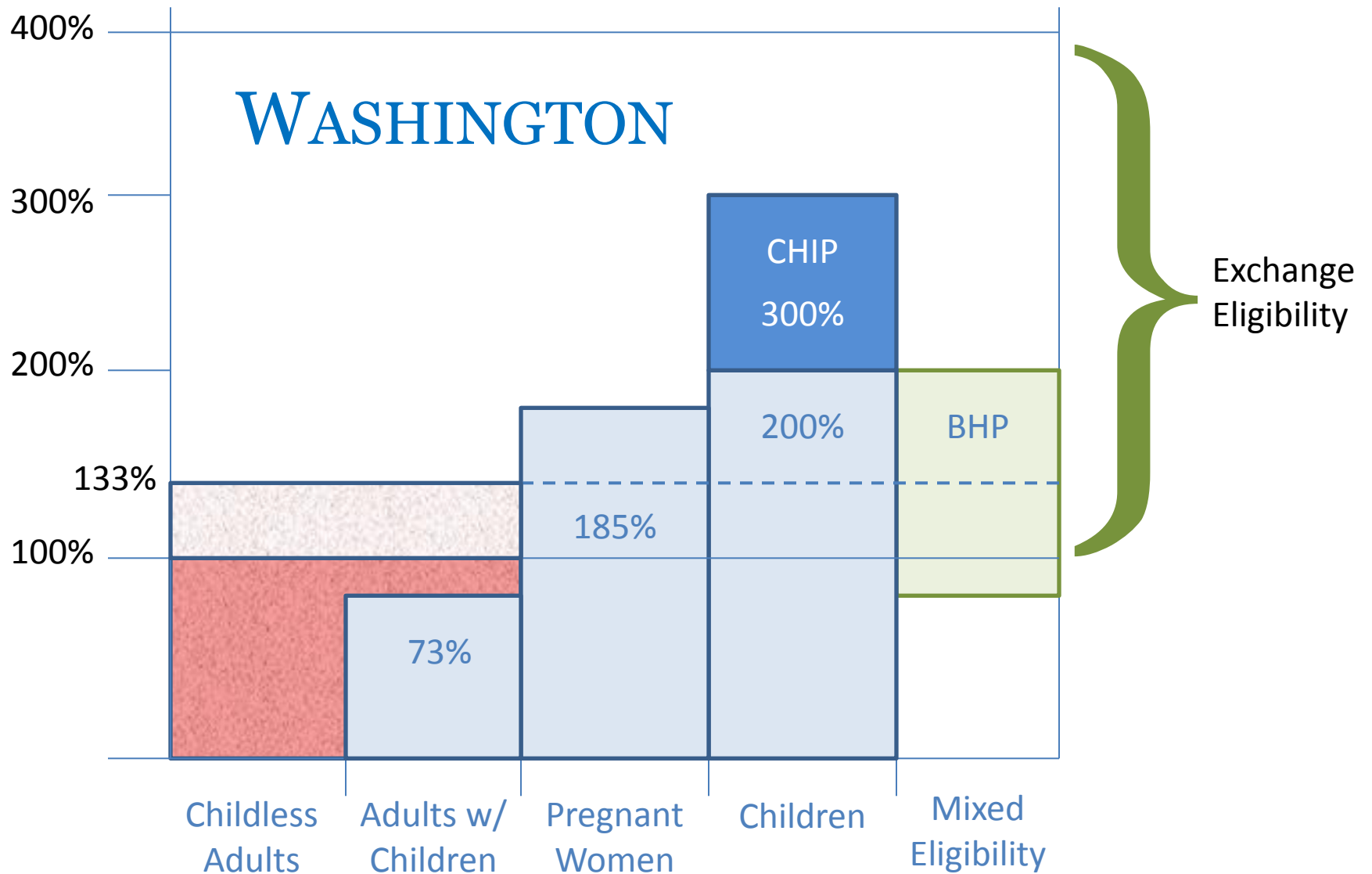
OTHER FACTORS

- Reduction of DSH payments in states that don't expand Medicaid is a significant revenue threat to hospitals
- Expansion in WA is likely but don't take expansion for granted

MARKET STRUCTURE



MARKET STRUCTURE

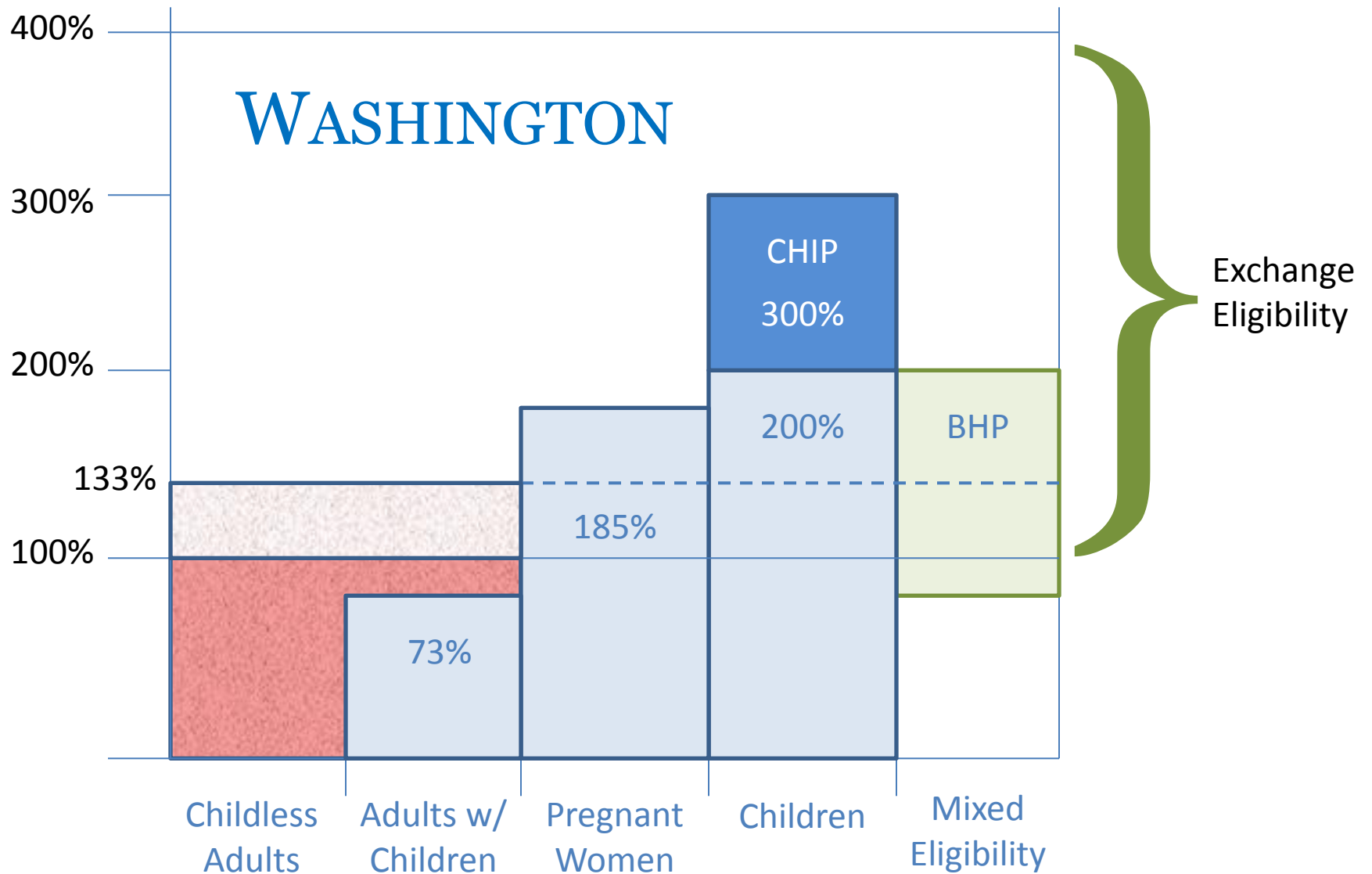




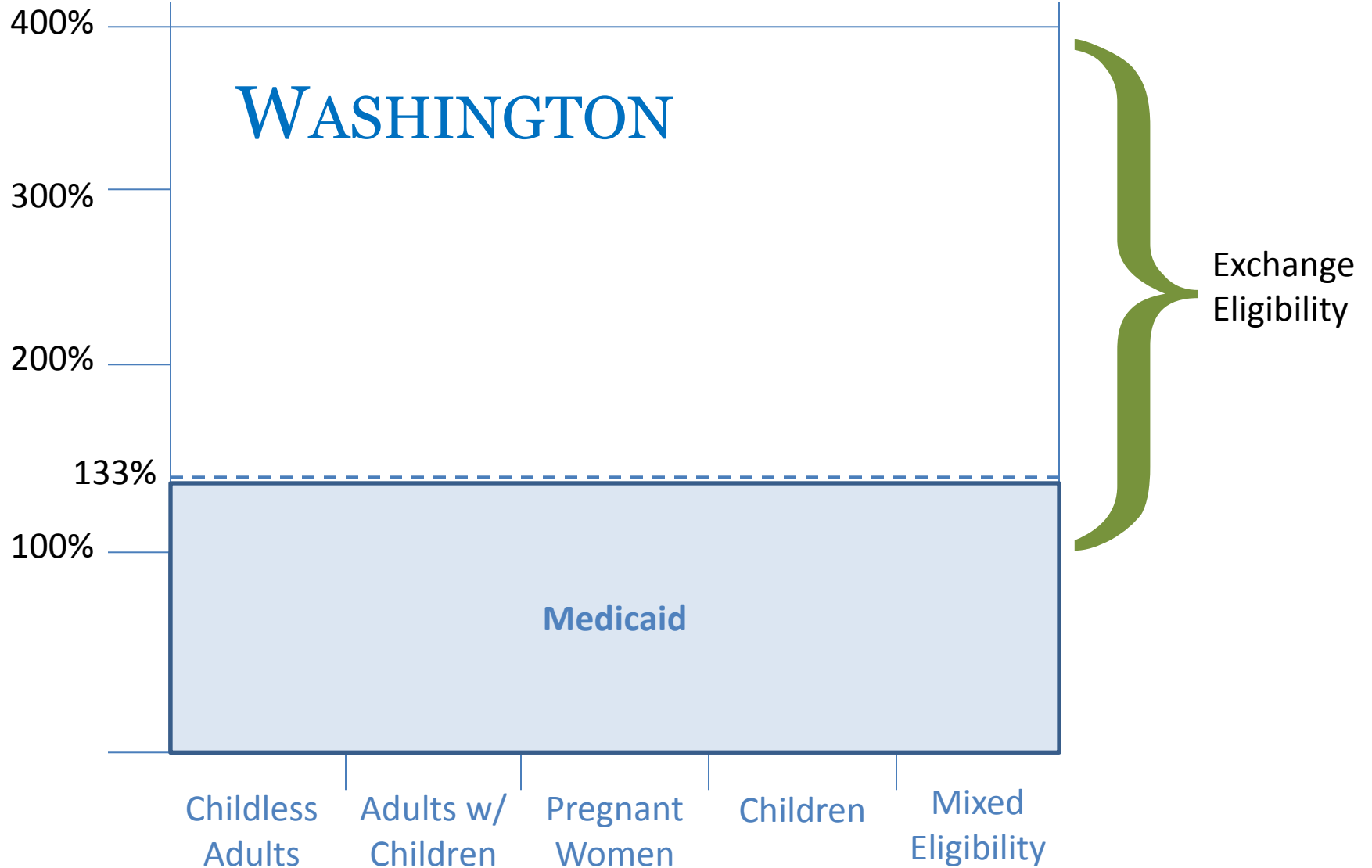
OTHER FACTORS

- State government
 - Fully implementing the ACA will save the state between \$667 and \$998 million
 - Comes primarily from moving Medicaid lives to the Exchange
 - There will be considerable lobbying over where that savings should be reallocated

MARKET STRUCTURE



MARKET STRUCTURE





OTHER FACTORS

- Role of Navigators: “He who enrolls, wins.”
 - More complicated than this, but not much
 - If PeaceHealth decides it cares about its plan partner, it should care about how plans will enroll new Medicaid or Exchange lives
 - Role of the Emergency Room



OTHER FACTORS

- Unrelenting pressure on critical access hospitals
 - Legislature wants to move many CAH to rural health clinic status
 - Limited creative engagement by rural hospitals to provide solutions to the legislature
 - Unwinding of ‘cost based’ methodology



QUESTIONS ON MARKET ACTIVITY?



**EXTRAPOLATING
GENERAL RECOMMENDATIONS**



WHAT DOES THIS MEAN?

- Plans
 - Exchange fundamentally alters the insurance marketplace
 - Will force plans to largely standardize benefits
 - Will force increased utilization management
 - Will push Medicaid and Exchange closer together over time
 - Cost is a major concern for them
 - Approaching providers about taking Exchange contracts at Medicaid rates
 - » No cost based floor on Exchange
 - » These would be standard Medicaid rates without any reconciliation to costs



WHAT DOES THIS MEAN?

- Plans
 - On Exchange, a limited ability for plans to differentiate
 - Customer service and feedback
 - Branding
 - Price
 - Moving to a tiered model of benefit design
 - The Legacy benefit package versus the PeaceHealth package
 - » Will force transparency on to hospital pricing
 - » Creates opportunities or threats depending on branding, pricing and market share



WHAT DOES THIS MEAN?

- Hospitals
 - Consolidation continues – but for how long?
 - 75% of pricing comes from market leverage
 - 25% of pricing comes from cost
 - Fewer single or small hospital systems available
 - As they become fewer, it makes the value of remaining hospitals diminish
 - Timeline of reform limits the benefit of this strategy over time
 - Alignment with a plan partner
 - GroupHealth in Spokane
 - PeaceHealth and Columbia United Providers



WHAT DOES THIS MEAN?

- Hospitals
 - Identifying physician referral partners
 - Can't get to an ACO without close relationships with physicians
 - Employing physicians is slowing considerably, and in some places unwinding
 - The future for hospitals includes diminished utilization, revenue
 - Have to figure out how to unwind a cost-based methodology which has led to inflation in pricing
 - Leads to payment reform models like CCOs, RHAs, conversion to RHCs
 - MedPAC is pushing to remove facility charges



WHAT DOES THIS MEAN?

- Physicians
 - Trying to find capital to facilitate becoming the “quarterback” on the patient care team
 - Moving to a “medical home” takes money
 - Building “medical neighborhoods” around referral coordination, brings accountability to the provider relationships
 - Looking to plans, hospitals to fund and partner in new relationships



QUESTIONS?

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