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

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

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

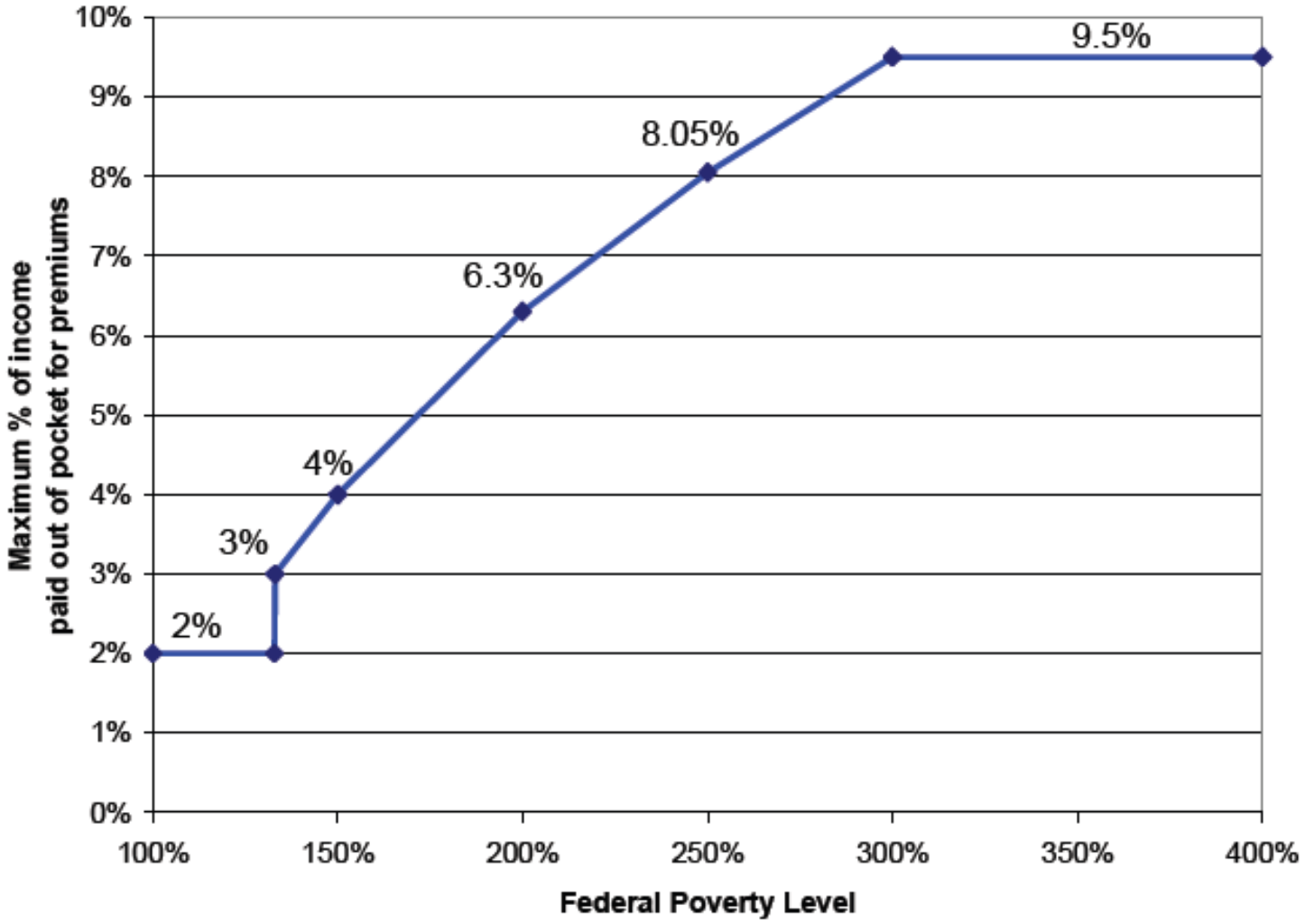
2013 Poverty Guidelines for the 48 Contiguous States and the District of Columbia

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)



Source: Congressional Research Service

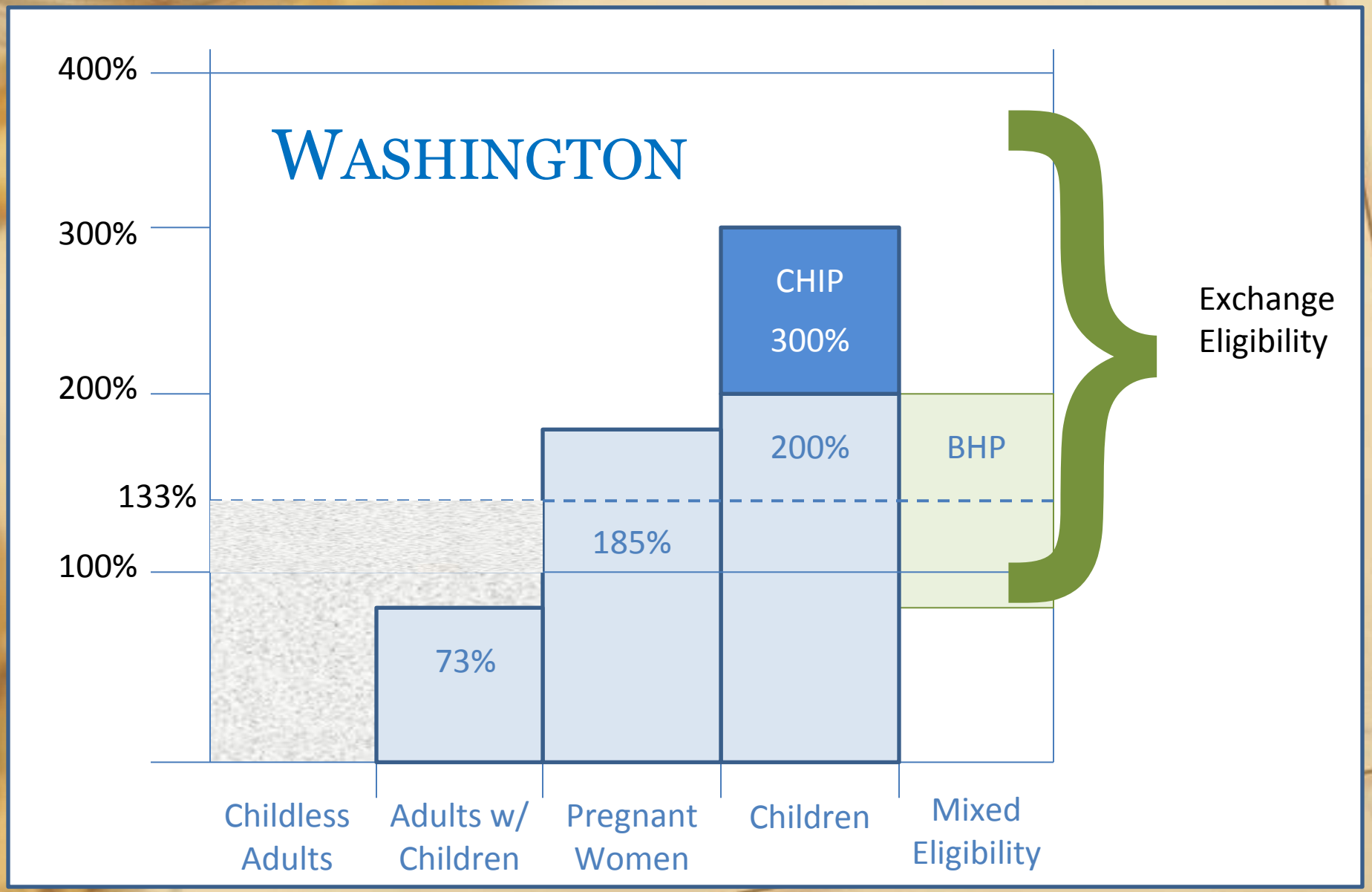
EXCHANGES

- 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



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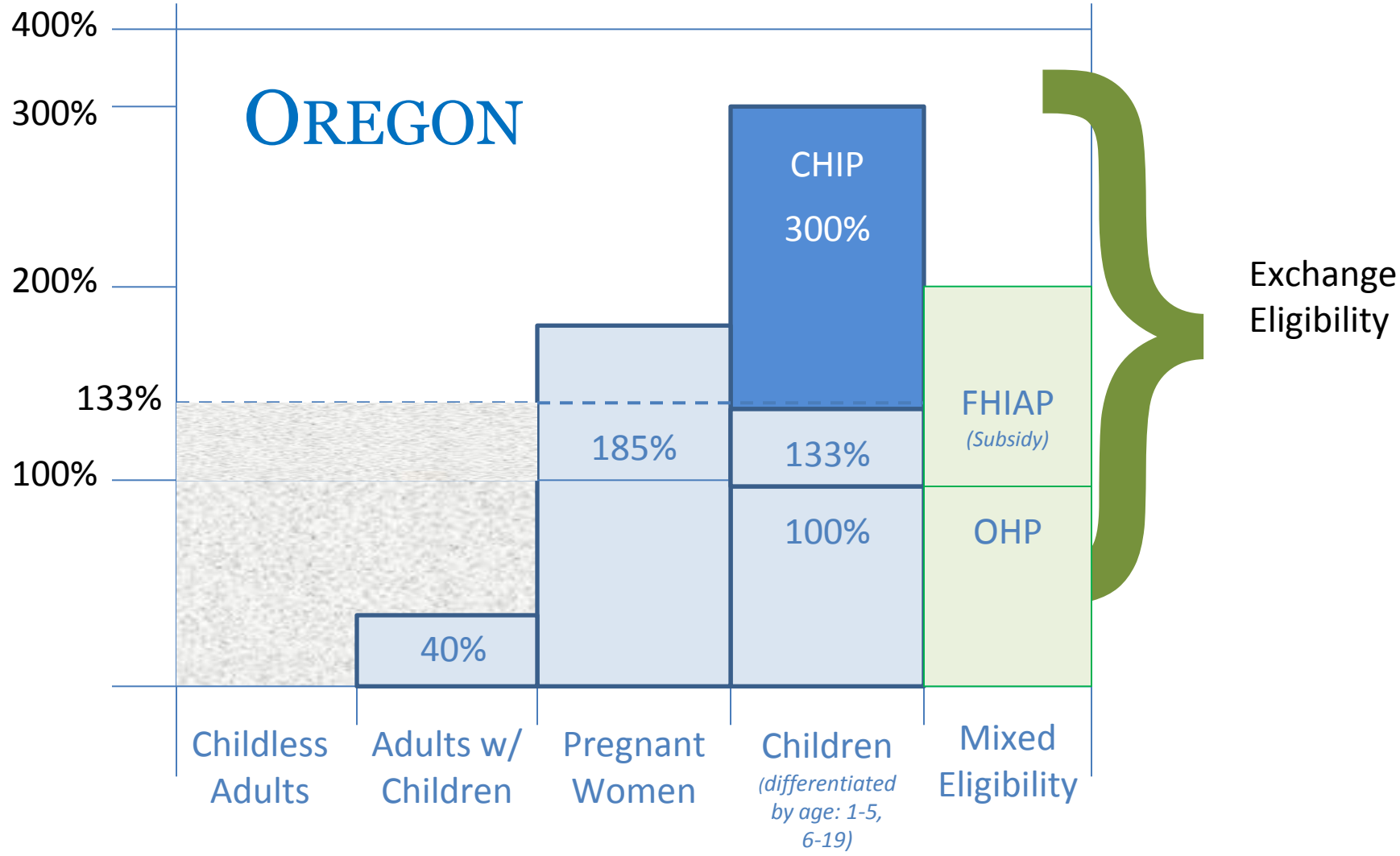

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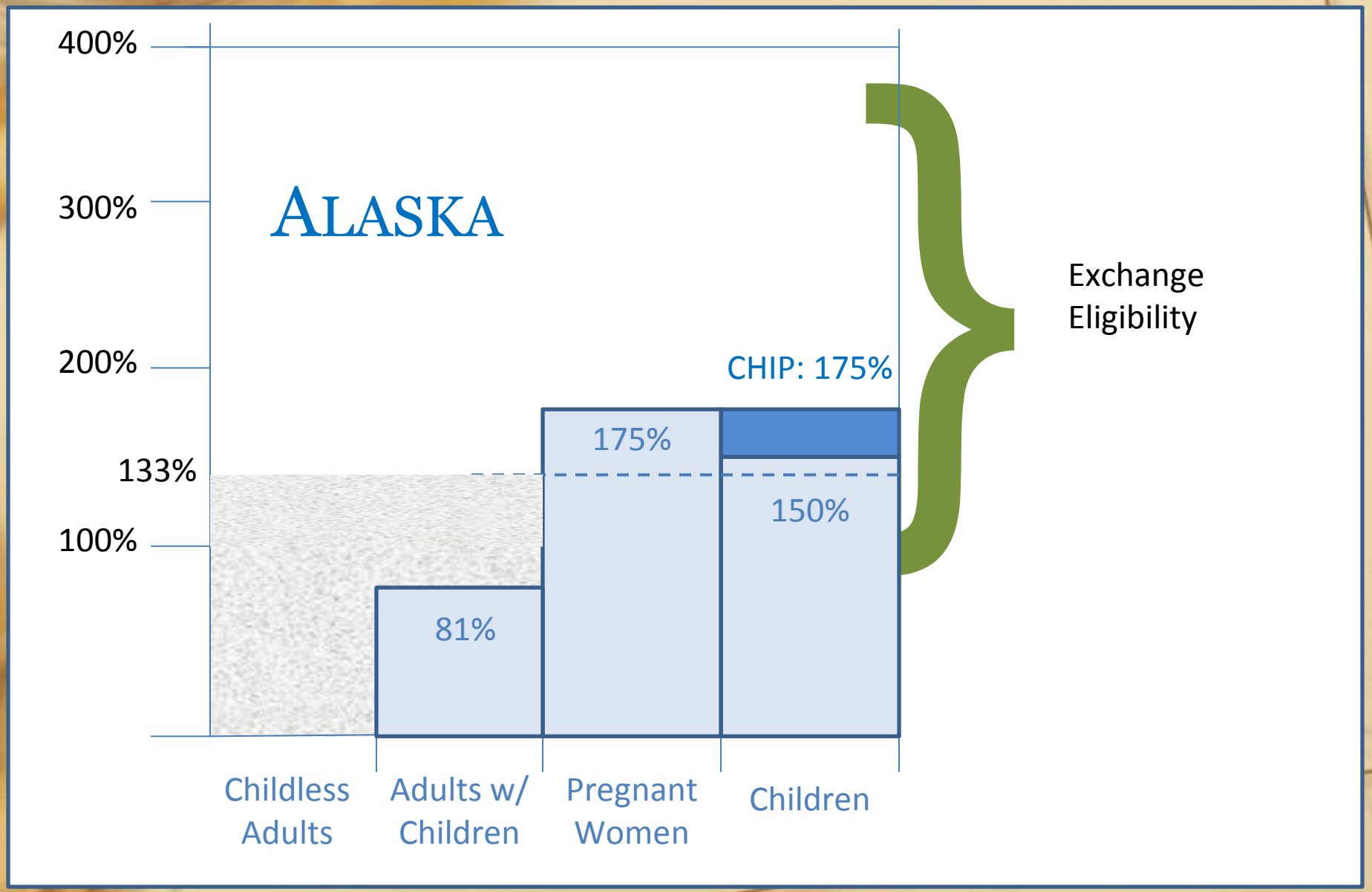


Washington & Oregon

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

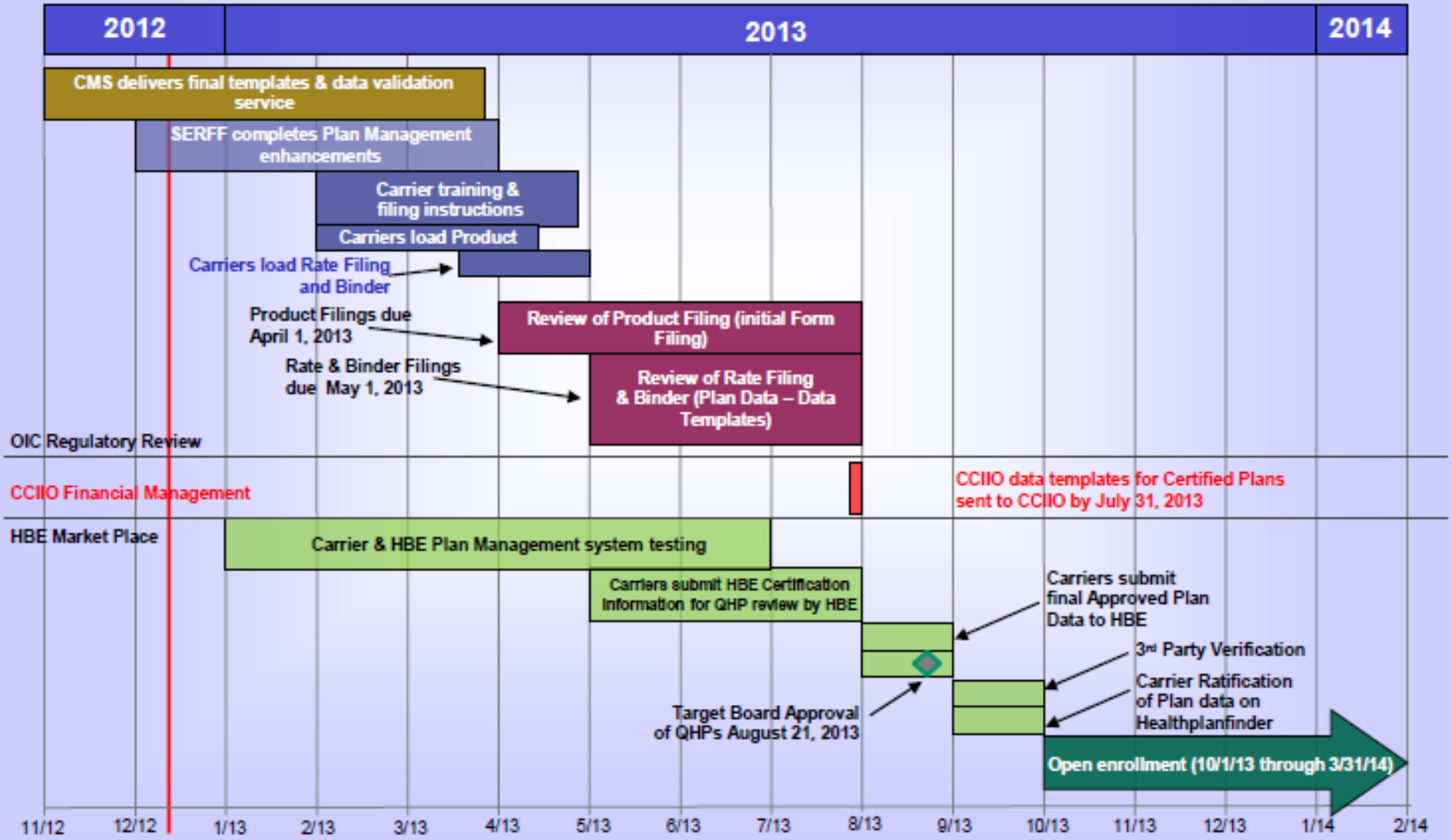
- Both actively engaging health plans for enrollment
  - WA: 13, 7, 4 plans submitted LOIs
  - OR: 15 and 13 plans submitted apps
- Different approaches to funding
  - WA: Undetermined; bill to add a fee to plans operating on the exchange to fill shortfall after premium tax collected on premiums on exchange
  - 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	*Percent of Total*
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	
Percent of Total:	*32%*	*19%*	*30%*	*18%*		*100%*

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



Oregon

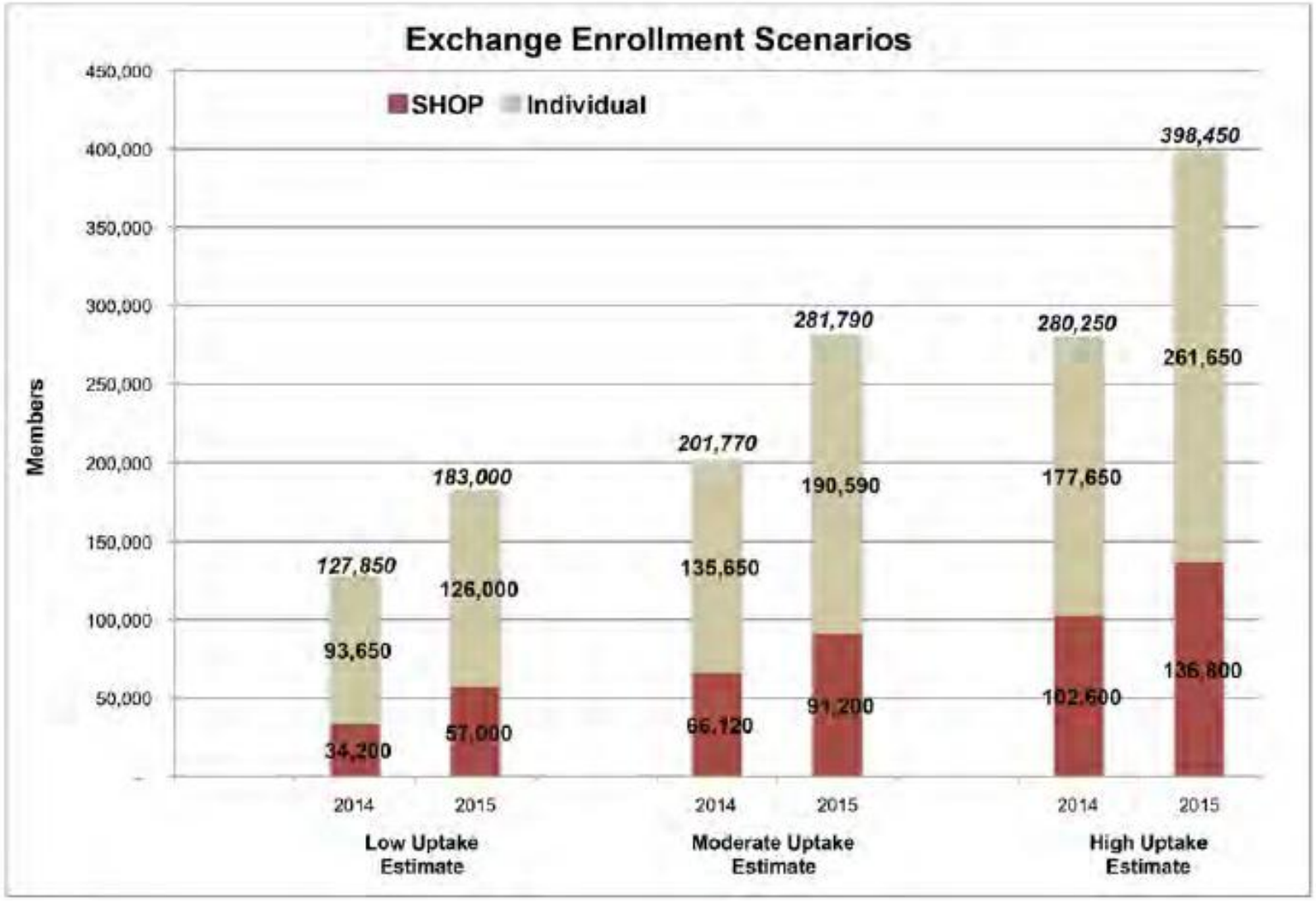
Oregon Health Insurance Enrollment, 2010

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



Source: [Cover Oregon Business Plan]

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

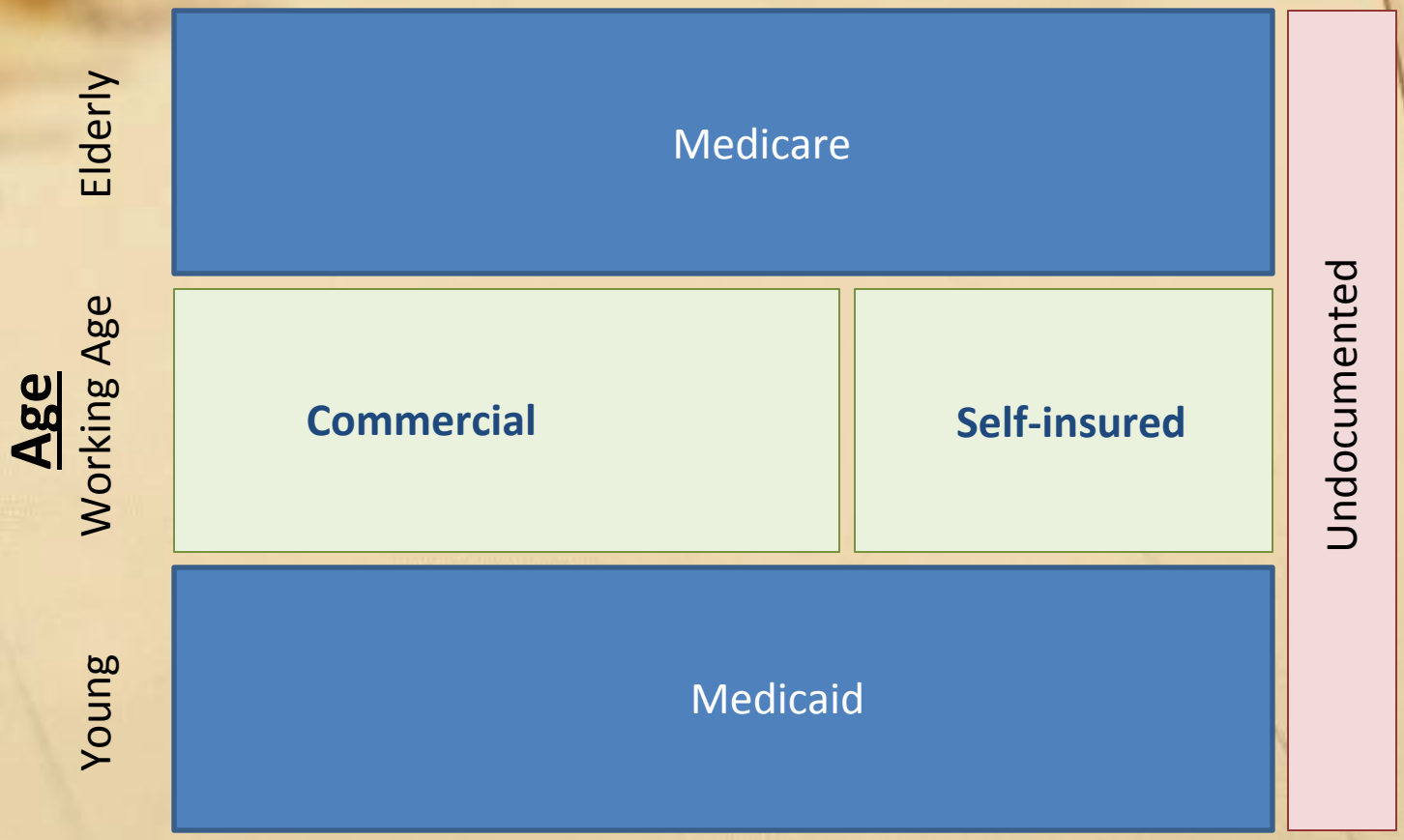
- Regence shifting to Bridgespan
  - Strategy to limit the potential downside from exchange activity
  - Reflects a longer term trend by Cambia to limit engagement of the insurance market

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



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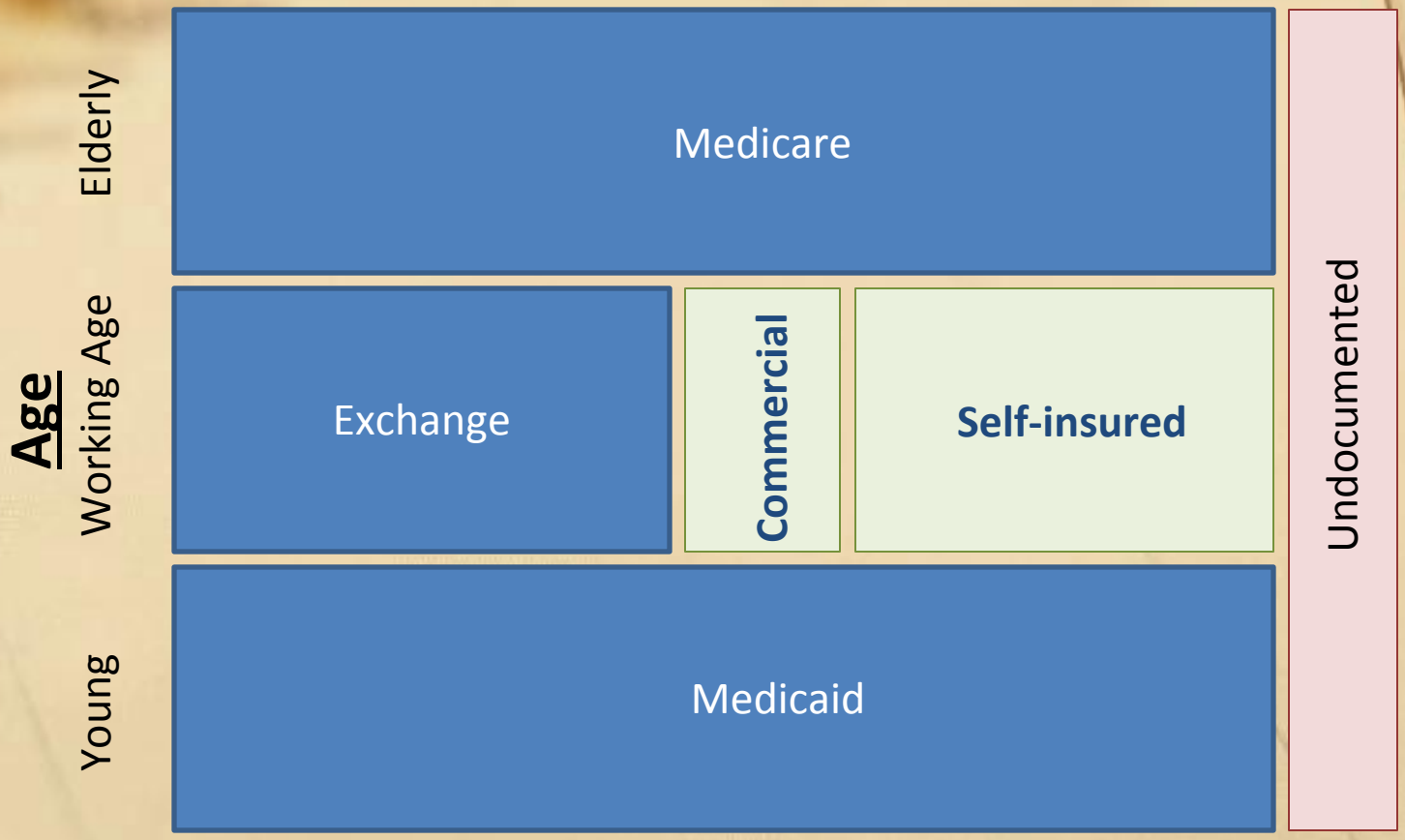
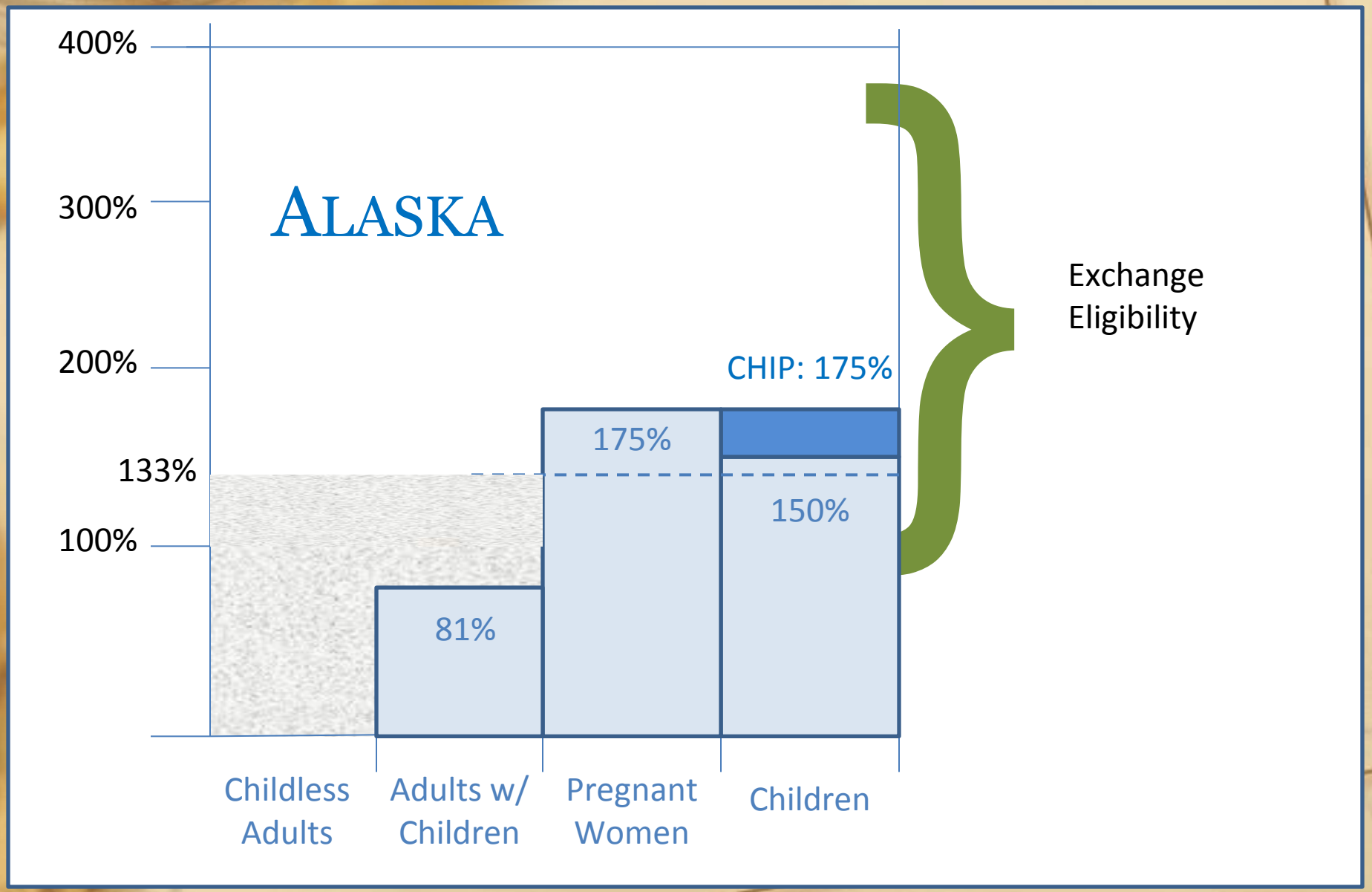


Other Factors

- 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



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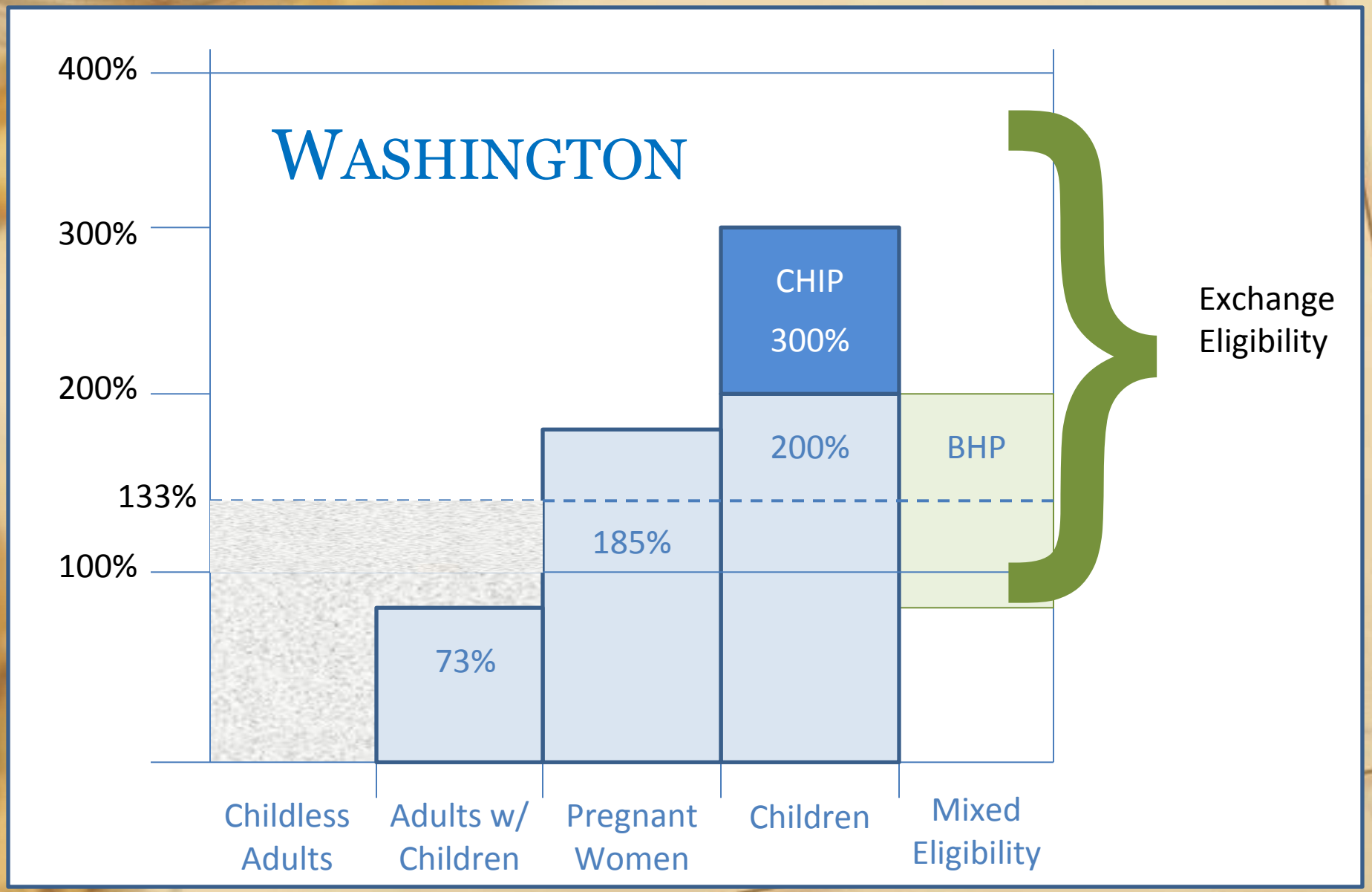
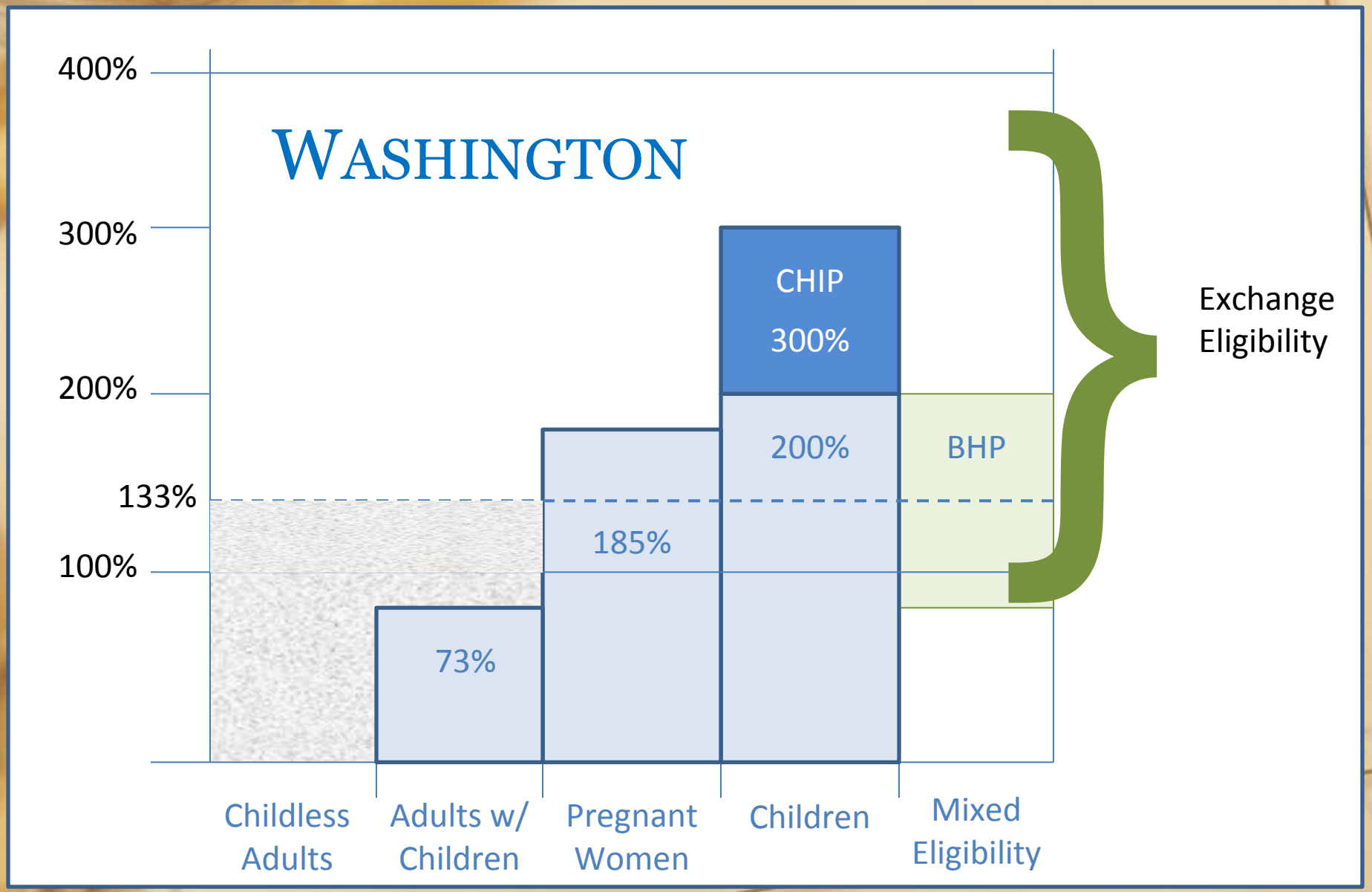


Other Factors

- 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



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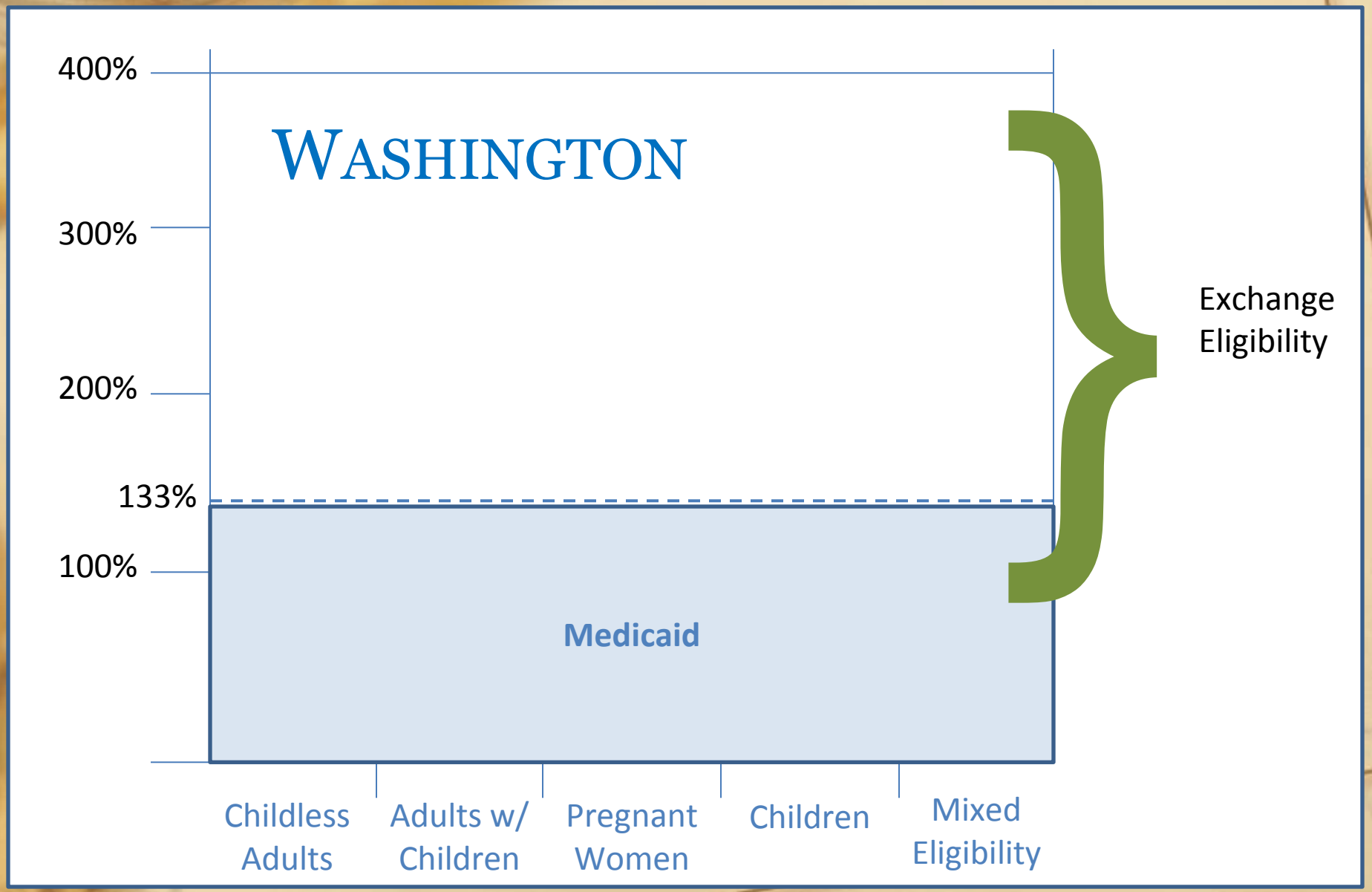

Other Factors

- 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?

DJ Wilson

djwilson@wilsonstrategic.com

Cell: 425-876-3880

Office: 425-361-2118

wilson strategic communications