Health Reform: Where Are We Now?

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President, Leavitt Partners Consulting

Geologic tectonic forces create our current landscape
November 13, 1963 – South of Iceland

A new landscape emerges (within 16 days)
The island of Surtsey forms within three years

Societal tectonics create new health care landscapes

Tectonic Shifts

- Social Compassion
- Economic Dispassion
- Tech Power
- Demographics
- Government & ACA
Societal tectonics create new health care landscapes

Tectonic Shifts

Social Compassion
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The ACA continues the trend of compassionate entitlement programs

Societal tectonics create new health care landscapes
Deficit spending to fund consumption is not sustainable


Entitlement spending is a major driver of overspending

Source: CBO, Budget and Economic Outlook: Fiscal Years 2013 to 2023, Feb 2013
Human compassion vs. global economic dispassion

- Social Security
- Medicare
- Medicaid
- Supplemental Security
- CHIP
- Medicare Part D
- PPACA

Debt = $17.5 trillion (and counting)

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The ACA boils down to three elements

- Increases Access to Health Care
  - Bronze Health Plan
  - Employer Mandate
  - Gold Health Plan
  - Reinsurance
  - Accountable Care Organizations
  - Guaranteed Issue
  - Small-Business Health Options Program

- Increases Insurance Industry Regulation
  - Preexisting Conditions
  - Risk-capital
  - Adjusted Community Rating
  - Silver Health Plan
  - Risk corridors
  - Public Exchange
  - Electronic Medical Records
  - Advanced Premium Tax Credit
  - Individual Mandate
  - Essential Health Benefits
  - Aggregated Risk Pools
  - Preventative and Wellness Services

- Establishes Minimum Benefits
  - Preexisting Conditions
  - Risk-capital
  - Adjusted Community Rating
  - Silver Health Plan
  - Risk corridors
  - Public Exchange
  - Electronic Medical Records
  - Advanced Premium Tax Credit
  - Individual Mandate
  - Essential Health Benefits
  - Aggregated Risk Pools
  - Preventative and Wellness Services

ACA impacts remain uncertain

- Administration audibles
- Election outcomes at state/federal level
- Regulatory/rule-making process
- Congressional action
- Influence of the Courts
### Potential future changes to the ACA pre-2016

<table>
<thead>
<tr>
<th>Light Pressure</th>
<th>Medium Pressure</th>
<th>Heavy Pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• IPAB cancelled</td>
<td>• Device Tax cancelled</td>
<td>(Unlikely pre-2016)</td>
</tr>
<tr>
<td>• Expanding providers bearing risk</td>
<td>• Employer mandate cancelled</td>
<td></td>
</tr>
<tr>
<td>• Increased flexibility for Medicaid expansion</td>
<td>• Continuation of risk corridors</td>
<td></td>
</tr>
<tr>
<td>• Increased disclosure information</td>
<td>• Subsidies</td>
<td></td>
</tr>
<tr>
<td>• Narrow Networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Patient Out-of-Pocket Costs</td>
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<td></td>
</tr>
</tbody>
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### Senate up for grabs in 2014

- **Likely Dem**
  - HI: Schatz (D)
  - MN: Franken (D)
  - VA: Warner (D)
  - MI: Open (D)
  - NH: Shaheen (D)
  - OR: Merkley (D)
  - Safe Dem Seats

- **Leans Dem**
  - KS: Roberts (R)
  - MS: Cochran (R)
  - SD: Open (D)
  - WV: Open (D)
  - Safe Dem Seats

- **Leans GOP**
  - MT: Walsh (D)
  - KS: Roberts (R)
  - MS: Cochran (R)
  - SD: Open (D)
  - WV: Open (D)
  - Safe GOP Seats

- **Likely GOP**
  - AK: Begich (D)
  - AR: Pryor (D)
  - CO: Udall (D)
  - GA: Open (R)
  - IA: Open (D)
  - KY: McConnell (R)
  - LA: Landrieu (D)
  - NC: Hagan (D)
  - Safe GOP Seats

- **Toss Ups**
  - AK: Begich (D)
  - AR: Pryor (D)
  - CO: Udall (D)
  - GA: Open (R)
  - IA: Open (D)
  - KY: McConnell (R)
  - LA: Landrieu (D)
  - NC: Hagan (D)

Source: Real Clear Politics
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Emerging Landscapes
- Population Health

ACO activity is robust, but uneven

Estimated ACO Penetration by Hospital Referral Region, Leavitt Partners Center for Accountable Care Intelligence, 2014
An increasing number of ACO covered lives

Covered Lives Over Time

Leavitt Partners Center for Accountable Care Intelligence 2014

Physicians and hospitals are both experimenting

# of ACOs

Leavitt Partners Center for Accountable Care Intelligence 2014
Robust government program participation

Approximately 14% of Medicare FFS lives are under one of these programs

Some private payers are exceptionally active

307 - Payment Arrangements
86 - Unique Payers
55 - Payers With Only 1 Arrangement

Top 7 Payers

- Cigna
- Aetna
- UnitedHealthcare
- BCBS of Massachusetts
- Anthem
- Blue Shield of California
- Blue Cross Blue Shield of Michigan
ACO Projections: The two extremes

**Model 1:** A relatively low level of replacement (failure) of the first batch of ACOs and predicts a much higher total market potential, approximately 150 million lives. 

**Model 2:** A higher rate of replacement (failure) and predicts a much lower total market potential approximately 23 million lives.

ACO Projections: The middle of the road

- A majority of early adopter ACOs are able to show savings while maintaining or improving profitability, though some organizations fail and leave the program.
- Other organizations will imitate the more successful models but will move towards accountable care at a more cautious pace.

A smaller rate of replacement (failure) and predicts a more modest total adoption nearing 100 million lives by 2018.
Leavitt Partners seeking additional research partners

1. Active Tracking of ACOs
   • 600+ ACOs and growing
   • Secondary research

2. Interviewing ACO Leadership
   • 100+ interviews and growing
   • Primary research
   • Surveying

3. Analyzing ACO Trends
   • Data analysis
   • Expert insight

4. Performing Local Market Research
   • Interviews with local stakeholders
   • Helps project local trends

5. Products
   • Benchmarking Reports
   • ACO Categories
   • Collaboration Opportunities

Leavitt Partners invites ALL providers to participate in our accountable care survey process

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Enrollment’s slow start and final month surge

Enrollment of “young invincibles” varies across the U.S.

Percentage of Exchange Enrollment Comprised of Ages 18-34

Actuaries generally agree that the “right” risk balance requires 40% of enrollees to be between 18-34.

If 33% of enrollees are 18-34, costs will be approximately 1.1% higher than premium revenues.

If 25% of enrollees are 18-34, costs will be approximately 2.4% higher than premium revenues.

Source: HHS & State-based exchange data
High cost sharing for Exchange products

On Average, Silver Deductibles Are More Than $2,500

- Bronze: 5% 2%
- Silver: 20%
- Gold: 9%
- Platinum: 5%
- Catastrophic: 2%

Year 2 Exchange Open Enrollment – What’s Ahead?

- Healthcare.gov 2.0
- States on the move
- Improved exchange capabilities
- Product portfolio increase
- Employer Penalty pressure
- Basic Health Plan with uncertain future
- SHOP Exchange lull
- Ascendance of private exchanges
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Emerging Landscapes

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- Insurance Exchanges
- Consumer Sovereignty

Network arrangements will test consumer choice

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>51</td>
<td>30</td>
</tr>
<tr>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>35</td>
<td>30</td>
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</tbody>
</table>

- **Broad Network**
  - Have less than 30% of 20 largest hospitals by bed size not participating
  - 41%

- **Narrow Network**
  - Have 30-69% of 20 largest hospitals by bed size not participating
  - 150%

- **Ultra-Narrow Network**
  - Have at least 70% of 20 largest hospitals by bed size not participating
  - 173%

Source: McKinsey; LP analysis

*Networks in our sample of select markets are categorized as follows: a) broad networks have less than 30 percent of 20 largest hospitals by bed size in the “relevant area” (area within 50 miles of rating area’s most populous zip code) not participating, b) narrow networks have 30-69 percent of 20 largest hospitals not participating, c) ultra-narrow networks have at least 70 percent of 20 largest hospitals not participating; largest 20 hospitals represent ~80-85% of beds on average across rating areas.*
Consumers choosing more high deductible plans

Growth of HSA-Qualified High Deductible Health Plan Enrollment,
Covered Lives (Millions), March 2005 to January 2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Individual</th>
<th>Small Group</th>
<th>Large Group</th>
<th>Other Group</th>
<th>Uncategorized</th>
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<td>March 2005</td>
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<tr>
<td>January 2013</td>
<td>15.5</td>
<td></td>
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</table>

Source: AHIP Center for Policy Research

Defined contribution may enable consumer choice

70% of respondents expect large employers to move to a defined contribution model in 5 years

93% of respondents believe there will come a time when defined contribution is the preferred model for offering benefits

13% of employers have already adopted or are very likely to adopt a defined contribution approach in the next 2 years

Array Health Survey on Private Exchanges October 2013

Private Exchange Evaluation Collaborative Executive Summary Dec. 2013
Patient engagement activity is advancing

Mechanisms for provider and payer ability to influence patient behavior include:

- Patient Profiling
- Clinical Infrastructure
- Remote Services
- Care Management
- Decision Support Tools
- Data Analytics

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- Medicaid as a Lever
Just under half the states are moving forward with “Traditional” Medicaid Expansion

Medicaid is migrating from “Public Assistance” to “Insurance”

**Enrollment Growth**
- Newly eligible
- “Woodwork”/“Welcome Mat”
- Application portal/exchange interface
- Simplified eligibility – MAGI

**Changing “Face” of Enrollees**
- Childless adults
- Younger, healthier
- Older, high need
- Behavioral health needs

SOURCE: LP Analysis based on Medicaid Spending and Enrollee Detail for CBO’s May 2013 Baseline
Medicaid can be a lever for broader system reform

- **State Purchasing Leverage**
  - Coordinated Strategies: Medicaid, public employees/retirees, other state funded populations

- **Multi-payer Initiatives**
  - Example: Health Care Payment Improvement Initiative (AR)

- **State Innovation Model (SIM)**
  - Broad based impact on Medicaid, CHIP, Medicare and commercially covered

- **Data Infrastructure and Analytics**
  - APCDs, health information exchange, accountability frameworks

Tectonic shifts create new health care landscapes

“The future is already here – it's just not evenly distributed.”

-William Ford Gibson
To participate with Leavitt Partners in the accountable care research survey:

Email me [Andrew] at:
Info@leavittpartners.com