How Insurance Exchanges might Change your Market

JON KINGSDALE. PH.D.
HFMA’S ANI CONFERENCE
JUNE 19, 2013
Outline

• What health insurance exchanges do

• How they can begin to change markets

• Opportunities & threats
Connect to good health, Massachusetts!

Our online Commonwealth Choice marketplace is the only place where you can compare plans from the state's major insurers. We're an independent state agency, so you can shop with confidence.

Our Commonwealth Care program offers low-or-no-cost health insurance for people who qualify. It provides comprehensive benefits and a choice of health plans.

Find the plan that's right for you and enroll today!

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Glad to be insured

"I was young, healthy. I always thought that I was invincible. It never even crossed my mind that I could get hurt..."

—Andrew Herlihy of Malden

Hear Andrew's story and more

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For Commonwealth Care Members Only

If you've been accepted for this subsidized health plan:

→ Register to get online access to your account
→ Get Instructions for creating your account
→ Log in to your account
→ Get help with questions

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The Health Connector is an independent state agency that helps Massachusetts residents find health care coverage. Read more about us.
Exemptions from the Mandate
Think you can’t afford health insurance? Learn if you might be exempt from the Health Care Reform law’s penalties.
More on exemptions

Time to Renew?
Commonwealth Choice members must call 1-866-636-4654 to change plans. The TTY line for hearing or speech-impaired callers is 1-888-213-8163. Please act in time to stay covered.

Did Your Employer Send You?
Use your Employer ID to shop for a plan. Get tax-free savings on health insurance.
Go to the “Employees” area

Self Employed?
Use “total business income” as reported on your federal taxes if you’re trying to qualify for a low-or-no-cost Commonwealth Care plan.

Contact us

Important Dates
For coverage on: Apply & pay by:
Dec. 1, 2010 Nov. 22, 2010

Quick Links
Frequently asked questions

Real Customers
Ada May and Donald Roberts of Salem, MA
Read their story
Enter some basic information about yourself to start shopping for health insurance.

**Your Information**

- **Residential ZIP Code**: 02108
- **Type of Coverage**:
  - Self only
  - Self + spouse
  - Self + dependent child/children
  - Family (self, spouse + dependent child/children)
- **Your Date of Birth**: 01/01/1980
  (month / day / year)
- **Coverage to Begin**: December 1, 2010

🌟 Health insurance rates depend on when you want coverage to start, where you live, your age, and the number of people you want to insure.

[Continue]
Choose the type of plans that will meet your needs.

**Bronze**
- Lower monthly cost
- Higher costs when you receive medical services

Who chooses Bronze plans?
- See Bronze Plans

**Silver**
- Monthly cost can run higher than Bronze
- Lower costs when you receive medical services compared to Bronze

Who chooses Silver plans?
- See Silver Plans

**Gold**
- Highest monthly cost
- Lowest costs when you receive medical services

Who chooses Gold plans?
- See Gold Plans

or

- View all plans
# Price Is King

Show Plans. Then choose up to 3 to compare. Click **Continue** at bottom.

<table>
<thead>
<tr>
<th>Benefits Package</th>
<th>$ Monthly Cost</th>
<th>$ Annual Deductible</th>
<th>Annual Out of Pocket Max.</th>
<th>Doctor Visit</th>
<th>Generic Rx</th>
<th>Emergency Room</th>
<th>Hospital Stay</th>
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<tbody>
<tr>
<td><strong>Bronze Low</strong></td>
<td>as low as $231</td>
<td>$2,000 (ind.)</td>
<td>$5,000 (ind.)</td>
<td>$10,000 (fam.)</td>
<td>annual deductible, then $25 copay</td>
<td>annual deductible, then $15 copay</td>
<td>annual deductible, then $100 copay</td>
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<tr>
<td><strong>Bronze Medium</strong></td>
<td>as low as $252</td>
<td>$2,000 (ind.)</td>
<td>$5,000 (ind.)</td>
<td>$10,000 (fam.)</td>
<td>$30 copay</td>
<td>$10 copay</td>
<td>annual deductible, then $150 copay</td>
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<td><strong>Bronze High</strong></td>
<td>as low as $242</td>
<td>$250 (ind.)</td>
<td>$5,000 (ind.)</td>
<td>$10,000 (fam.)</td>
<td>$25 copay</td>
<td>$15 copay</td>
<td>$150 copay</td>
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<tr>
<td><strong>Silver Low</strong></td>
<td>as low as $313</td>
<td>$1,000 (ind.)</td>
<td>$2,000 (ind.)</td>
<td>$4,000 (fam.)</td>
<td>$20 copay</td>
<td>$15 copay</td>
<td>annual deductible, then $100 copay</td>
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<tr>
<td>Insurance Carrier</td>
<td>Neighborhood Health Plan</td>
<td>Harvard Pilgrim Health Care</td>
<td>Blue Cross Blue Shield of Massachusetts</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>----------------------------</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>NCQA Rating</td>
<td>4 out of 4 stars</td>
<td>4 out of 4 stars</td>
<td>4 out of 4 stars</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits Package</td>
<td>Bronze High</td>
<td>Bronze High</td>
<td>Bronze High</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| About Bronze High | Lowest annual deductible in Bronze  
No deductible for visits to your doctor.  
Has co-insurance. Example: A lab test costs $100. Bronze High has 35% co-insurance. You will pay $35 and the insurer will pay $65. | Lowest annual deductible in Bronze  
No deductible for visits to your doctor.  
Has co-insurance. Example: A lab test costs $100. Bronze High has 35% co-insurance. You will pay $35 and the insurer will pay $65. | Lowest annual deductible in Bronze  
No deductible for visits to your doctor.  
Has co-insurance. Example: A lab test costs $100. Bronze High has 35% co-insurance. You will pay $35 and the insurer will pay $65. |
Buying insurance is not fun, but it can be easy

Before moving to Mass in 2007, she was told by an insurance agent in her home state: “You’ll never get insurance, so don’t waste your time.”

After discovering Commonwealth Choice: “I did the whole thing online and got a very good plan. I was just thrilled!” Abbie von Schlegell, Commonwealth Choice member
But under ACA, exchanges also...

- Market coverage, esp. to the uninsured
- Determine eligibility for APTCs and CSRs: 45 minutes in best case scenario
- Report & reconcile enrollment & payments with issuers & the IRS
- Trigger penalties on “large” employers
- Disrupt established practices
- ...

WAKELY CONSULTING GROUP
ACA Exchange Funding to States: hundreds of millions $ for marketing
Outline

• What health insurance exchanges do

• How they begin to change markets

• Opportunities & threats
Significant re-allocation of share in Massachusetts individual market

- Neighborhood Health undercut BCBS pricing on the order of ~1/3, rapidly eroding share in a market of markedly increased transparency
  - Lower pricing driven by more narrow networks and the ability to operate without a broker network, resulting in administrative fees less than half of BCBS MA

Changes in supply chain dynamics: new entrants, mergers, competition
## Increase Competition in Nongroup

<table>
<thead>
<tr>
<th>State</th>
<th># of Issuers Pre-reform</th>
<th># of Issuers Post-reform</th>
<th>Net Change</th>
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<tbody>
<tr>
<td>California</td>
<td>10</td>
<td>13</td>
<td>+ 3</td>
</tr>
<tr>
<td>Colorado</td>
<td>9</td>
<td>10</td>
<td>+ 1</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>2</td>
<td>9</td>
<td>+ 7</td>
</tr>
<tr>
<td>Oregon</td>
<td>9</td>
<td>12</td>
<td>+ 3</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>1</td>
<td>2</td>
<td>+ 1</td>
</tr>
<tr>
<td>Washington</td>
<td>6</td>
<td>9</td>
<td>+ 3</td>
</tr>
<tr>
<td>Connecticut</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>D. C.</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Maryland</td>
<td>6</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Vermont</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

**TOTAL**

|                  | 52                      | 70                       | +18        |
Impact of New Individual Rating

Blue Hair Salon
- Gold Benefits
- 3 ’ees, aged 40
- 3 spouses, aged 35
- 1 child each under 21
- SIC = 1.1
- 2013 rate = $1,100
- Rated on age alone for all 9 lives in 2014 =

Red PR Firm
- Gold Benefits
- 3 ’ees, aged 40
- 3 spouses, aged 45
- 3 children each
- SIC = .9
- 2013 rate = $900
- Rated on age alone for all 15 lives in 2014 =
The first reaction to change is buy new skills or “run for cover”

Increasing Physician M&A in Last 3 Years
* Half the Buyers are Hospitals

Source: Irving Levin Associates
Hospitals & plans active as well

- Continuing active market for hospital deals: 12% increase in 2011 to 92
- 1st half 2012: 48+ hospital deals

- Health Plan acquisitions
  - Medicare Advantage e.g., Aetna/Coventry (2012)
  - Vertical integration e.g., Anthem/Caremore (2011)
  - Medicaid e.g., WellPoint/Amerigroup
Outline

• What health insurance exchanges do

• How they can begin to change markets

• Opportunities & threats (among the noise)
Retail shoppers are price shoppers

- Commonwealth Choice purely a retail shopping market:
  - With their own $, 61% of shoppers chose catastrophic & bronze coverage
  - Low-priced, select network plans ~ 50%
State gov’t drove Commonwealth Care’s trend below 2%/yr, 2006-2013

MASSACHUSETTS STATE BUDGET, FY2001 VS. FY2011

STATE SPENDING (BILLIONS OF DOLLARS)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2001</th>
<th>FY2011</th>
<th>Change</th>
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<tbody>
<tr>
<td>Health Care Coverage</td>
<td>$4.0 B</td>
<td>-$5.1 B</td>
<td>-59%</td>
</tr>
<tr>
<td>Public Health</td>
<td>$33%</td>
<td>$38%</td>
<td>+5%</td>
</tr>
<tr>
<td>Mental Health</td>
<td>$33%</td>
<td>$33%</td>
<td>0%</td>
</tr>
<tr>
<td>Education</td>
<td>$23%</td>
<td>$23%</td>
<td>0%</td>
</tr>
<tr>
<td>Infrastructure/Housing</td>
<td>$11%</td>
<td>$11%</td>
<td>0%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$50%</td>
<td>$50%</td>
<td>0%</td>
</tr>
<tr>
<td>Local Aid</td>
<td>$13%</td>
<td>$13%</td>
<td>0%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$15%</td>
<td>$15%</td>
<td>0%</td>
</tr>
</tbody>
</table>

SOURCE: Massachusetts Budget and Policy Center [Budget Browser](#).
Enhanced price competition in Mass.

- Nine commercial health plans in exchange – all local, “network-based” plans
- Most com’l lives in global payment contracts
- 5 of 32 national Medicare Pioneer ACO’s in MA
- Other narrow network products in development
  - HPHC’s Focus product
  - GIC
  - BMC/Health/Net
  - Tufts MC
  - BCBS looking to create products
- Rapidly growing tiered products
  - 100,000+ in Blue Options – fastest growing BCBS product ever
  - Other plans also pushing tiered products
  - Current Tiered product design antithetical to continuity of care
Covered California’s 13 Issuers

- Mostly selective networks
- The 3 largest are significantly discounted from standard commercial plans
- The 4th is Kaiser
- Several new MMCOs participating, LA Care (with 800,000) the largest
- More are coming!
Different strokes for different strategies

• For local plans, especially MMCOs, exchange represents new lives and diversification

• The big national health plans with lots of ASO customers are very cautious
  • United
  • Aetna
  • Cigna
Different strokes for different strategies

- For Cedars-Sinai apparently no QHP in Covered CA was rich enough
- For safety-net & local community providers:
  - No choice?
  - >Medicaid is good, >Medicare is great
  - Uncompensated care vs bad debt
  - Focus on improving collections
Optimize Business Operations

Est. Avg. Patient Obligation of HXR Products
- 31.5%

Current Patient Obligation Across System
- 16.3%

49%
System’s Collection Rate from Patients with Commercial Insurance

What If System Improved Collection Rates by… ($ in millions)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>$21.9</td>
<td>$68.1</td>
</tr>
<tr>
<td>10%</td>
<td>$43.8</td>
<td>$136.2</td>
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<tr>
<td>15%</td>
<td>$65.7</td>
<td>$204.3</td>
</tr>
<tr>
<td>20%</td>
<td>$87.6</td>
<td>$272.4</td>
</tr>
<tr>
<td>25%</td>
<td>$109.5</td>
<td>$340.5</td>
</tr>
</tbody>
</table>
Interesting re-alignment opportunities around retail marketing

For decades, consultants have advised plans to “customized,” but plans generally prefer groups, for good reasons:

--to spread risk
--to reduce sales & billing costs
--to develop volume-based discounts
--because actuaries are born in groups
Is there a new opportunity for plans & providers to partner?

Now that we have a significant new market with retail shoppers and risk adjustment:

- Who are the least price-sensitive shoppers?
- Who are the most brand-responsive shoppers?
- Where is the greatest opportunity to manage costs?
- Who is best positioned to manage care?
- Who have the most impactful brands?