CAREADIGM BENEFIT ADVISORS

Healthcare Reform

The Patient Protection and Affordable Care Act

Version 2.0 – Imitation or Innovation?

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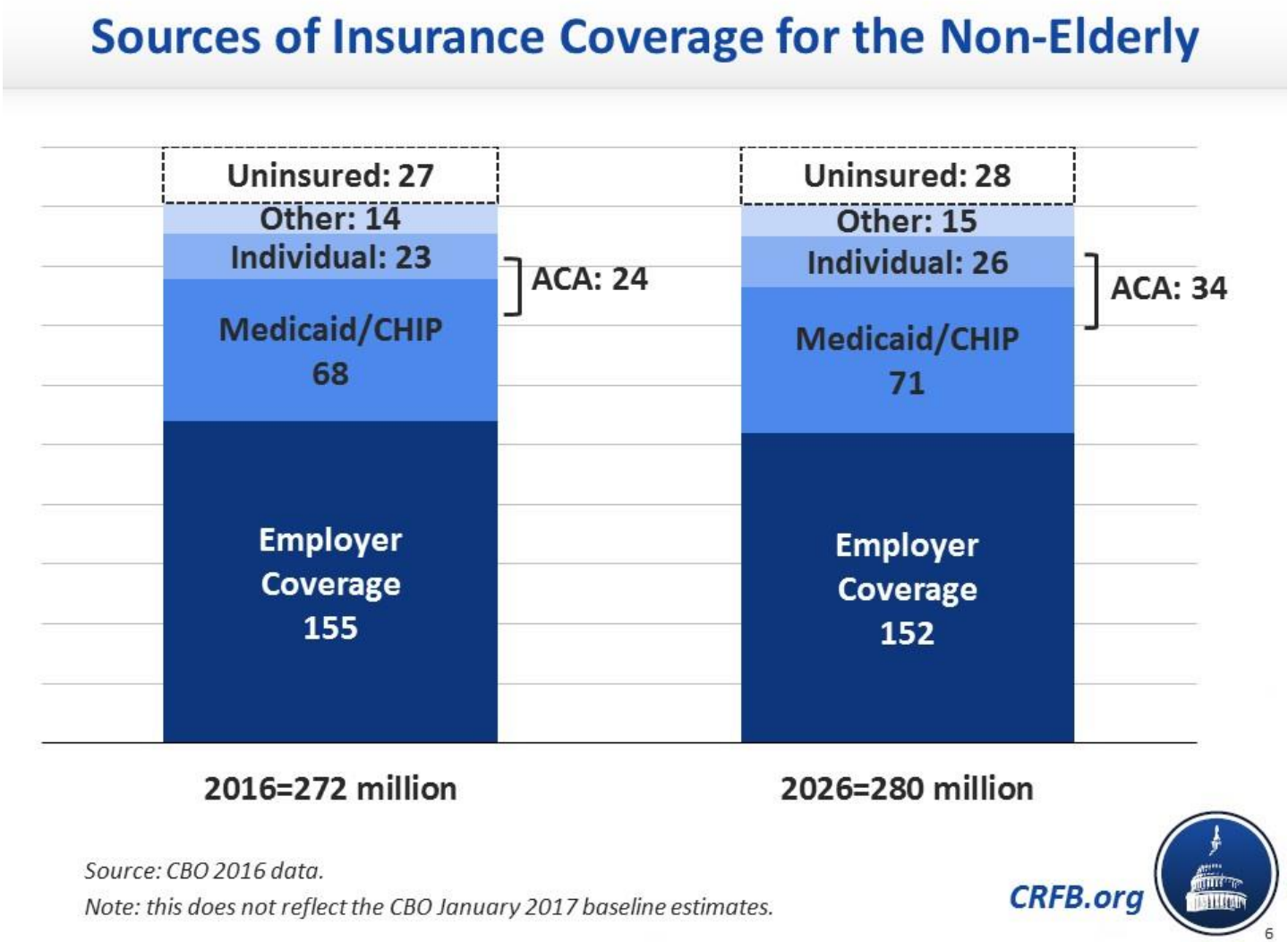
Overview of Today's Presentation

- Review what we have learned from the PPACA
- Analyze the challenges that have pressured PPACA
- Draw conclusions from PPACA (version 1.0)
- Replacement plan leaks and rumors
- Suggest guiding principles for effective healthcare reform
- Q&A

Goal of PPACA

- Help provide affordable health insurance to most Americans
- Improve access to primary care
- Lower healthcare costs

PPACA Covers Less Than 10% of Insured Population

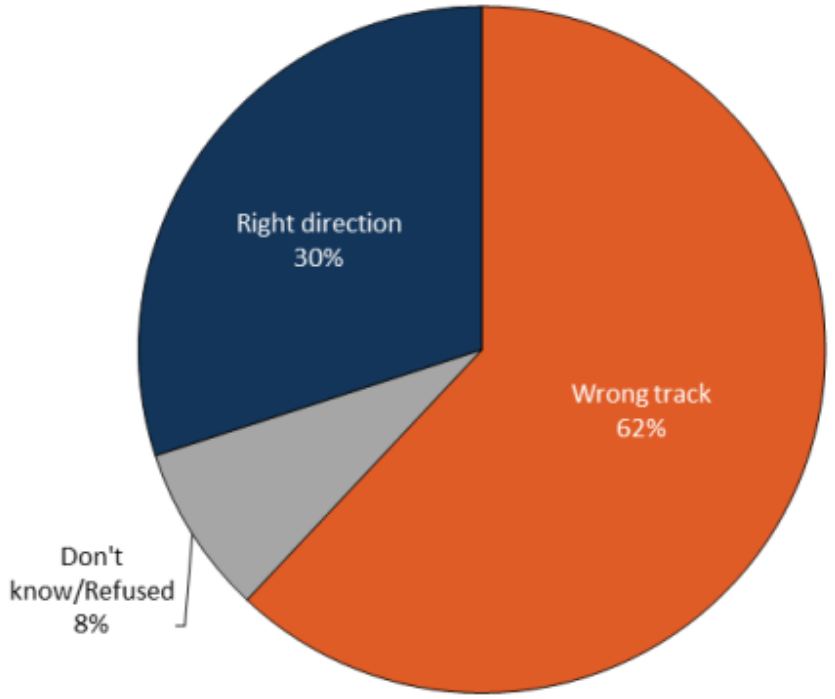


Public Opinion Summary

Figure 1

Six in Ten Say When It Comes to Health Care, Things in U.S. Have Gotten Off on the Wrong Track

When it comes to health care, do you feel things in this country are generally going in the right direction or do you feel things have pretty seriously gotten off on the wrong track?



SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted February 13-19, 2017)

Regional Market Reaction

- Pre-2014 expansion of coverage for preventive care and children under age 26
- 2014 Guaranteed issue, community-rated policies for individuals and small groups
  - Big surprises in deductibles and premiums
  - Initially, individual premiums were very price-competitive
  - Initially, small group plans were forced to move to EHB
  - April 2014, plans were permitted to "grandmother" underwritten plans
- 2015 – 2016
  - Individual plans experienced significant adverse selection
  - Risk corridor payments not made
  - Individual market collapsed
  - Many have opted to pay penalty and get true health insurance
  - EHB plans emerged as most cost-effective option for small groups
- 2017 – No company left in individual market for next year

Challenges Faced by PPACA

Original Goals:

- Help provide affordable health insurance to most Americans
- Improve access to primary care
- Lower healthcare costs

Challenges:

- Americans shifted "cost", not "risk" to health plans. Risk corridor payments not made
- We suffer more from adverse behavior, not access to care.
- No significant improvements in cost-effectively delivering care.

Comparison of PPACA and SNAP

SNAP

- Affordable food
- Government funded, state-administered
- Relatively consumer-friendly. Shop for best prices
- Tax and spend

PPACA

- Affordable healthcare
- Risk pool-funded at 18%-25% mark-up (based on MLRs)
  - Tax penalty assisted
- Consumers "blindfolded"
- De Facto tax and spend circumvented controls over tax origination and spending appropriations

Why Would Health Insurance Companies Cooperate with PPACA?

	Market Capitalization(1) March '10	Market Capitalization(1) March '17	$ Change	% Change
UNH	$ 39.47	$ 159.99	$ 120.52	305%
ANTM	$ 27.68	$ 43.89	$ 16.21	59%
AET	$ 13.48	$ 45.86	$ 32.38	240%
CI	$ 9.54	$ 39.07	$ 29.53	310%
HUM	$ 8.08	$ 31.95	$ 23.87	295%
Sum	$ 98.25	$ 320.76	$ 222.51	226%
SPY(2)	$ 112.64	$ 239.78	$ 127.14	113% (3)

(1) Billions of $US

(2) Per Share Index

(3) Approx. 30% of this growth is post-election.

Individuals Detected the Same Imbalance the Gov't Projects

Budgetary Effects of Fully Repealing the ACA

Policy	2018-2027 Cost/Savings (-)
Repeal Individual and Employer Mandates	$250 billion*
Repeal Exchange Subsidies	-$900 billion
Repeal Medicaid Expansion	-$1,100 billion
Other Coverage Provisions/Interactions	$200 billion^
Subtotal, Coverage Provisions	**-$1,550 billion**
Repeal "Cadillac Tax" on High Cost Insurance Plans	$100 billion
Repeal 3.8% Net Investment Income Tax	$250 billion
Repeal 0.9% Medicare Hospital Insurance Surtax	$150 billion
Repeal Various Insurer, Provider, and Manufacturer Fees	$200 billion
Repeal Other Revenue Provisions	$100 billion
Subtotal, Revenue Provisions	**$800 billion**
Repeal Reductions in Medicare Advantage	$450 billion
Repeal Reductions in Medicare Provider Payment Growth	$500 billion
Repeal Other Medicare and Medicaid Savings	$150 billion
Subtotal, Medicare and Related Provisions	**$1,100 billion**
Total Cost, Conventional Scoring	**$350 billion**
Macro-dynamic Feedback Effects	-$200 billion
Total Cost, Dynamic Scoring	**$150 billion**

Source: CRFB calculations based on CBO 2016 data.
**Excludes interactions with other provisions.*
^Includes Prevention Fund, increased Medicaid spending for territories, and funding for home and community-based services; excludes revenue from the Cadillac tax.

CRFB.org

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Cut Your Losses - $8.3 Billion Owed in Risk Corridor Payments

Largest 2014 – 2015 Risk Corridor Payments(1):

- BCBS Texas $917M
- BCBS IL $489M
- BCBS NC $363M
- Highmark $334M
- BCBSM $182M
- BCBS OK $173M

- Total Risk Corridor Payments Owed for 2014 and 2015 = $8.3B according to Modern Healthcare analysis of CMS data.

(1) Modern Healthcare Analysis of CMS data.

PPACA – Summary Conclusions

- Credited with expanding health insurance coverage to 20 million Americans
- Politically explosive
- "Insurance"-centric
- Unsustainable in many markets (1/3 of counties have 1 individual carrier). Many Co-ops failed.
- Not sufficiently funded
- Not effective in producing cost-effective delivery of care for uninsurable conditions

Healthcare Reform v2.0

Immitation or Innovation?

American Health Care Plan (AHCA)

- General features disclosed in Trumps address to Congress:
  - Coverage for those with pre-existing conditions
  - Tax credits for those without group coverage
    - Based on primarily on age
    - Not required to use them in Marketplace
  - Expanded Health Savings Accounts
  - Medicaid "resources and flexibility"
  - Legal reform and help reducing RX costs
  - National marketplace for health insurers to sell across state lines

AHCA – cont'd.

- Based on draft of bill released March 6, 2017:
  - Issued via Budget Reconciliation, removing filibuster and 60 vote requirement
  - PPACA taxes go:
    - Individual and Employer mandates go retroactive to 2016
    - Other taxes on investments, RX, health plans, medical devices and tanning salons
  - States define "acceptable" plans
  - Essential Health Benefits definition ends **12/31/19**.
  - Reduce federal spending on Medicaid by freezing funding in 2020 for the 31 states that expanded Medicaid and adding per capita grants.
  - Tax credits replace income-based subsidies in 2020:
    - Under 30 - $2,000 **per person**
    - Over 60 - $4,000 **per person**
    - Capped at $14,000 **per family**
    - Phased out at incomes of $75,000/$150,000

AHCA – cont'd.

- MLR requirement is gone.
- 3x cap on premiums for older Americans increased to 5x.
- High risk pools with block grants of $15B per year for first two years, going to $10 billion/yr 2020-2026
- Special enrollment periods changed. Beginning in 2019, there is a 30% penalty for one full year if you have a coverage gap of more than 63 days.
- HSAs expanded to $6,550 ind./$13,100 fam. Both spouses can make catch-up contributions.
- Expansion of HSA usage (OTC medications)
- Cadillac tax (40% excise tax on plans with premiums of $10,200/$27,500) remains. Moved from 2020 to 2025.
- Bars federal funding for Planned Parenthood

Preliminary Questions:

- Is trimming Medicaid expansion big enough to pay for this?
- How low can coverage go and still qualify for tax credit?
- Can employers dump group plans so that their employees get tax credits, improving profitability by reducing the benefit cost?
- When will the new plans be available in TN? 2020?
- Can the expanded HSAs be used to pay individual premiums on a pre-tax basis?

New Paradigm of Healthcare Reform

PPACA/AHCA:

- To help provide affordable health **insurance** to most Americans

New Paradigm:

- To help every American in **their pursuit of a healthy life**, regardless of pre-existing conditions

Principles of Innovative Healthcare Reform

- Not a piece of legislation – think "sending an astronaut to the moon"
- Full contents in letter to POTUS dated February 20, 2017:
  - Remove "insurance" as the driving mechanism for everyone and separate the insurable from the high risk pool. Insurance companies are "hired hands."
  - Provide consumer-focused tools for all Americans.
  - Replace current individual mandate with simple quality of care requirements
  - Develop cost-efficient, effective service models for uninsurable Americans and Americans with uninsurable conditions
- Letter available at www.Careadigm.com

I. Restore Health Insurance

- Excludes pre-existing conditions with unacceptably high costs, e.g.:
  - Pregnancy
  - Cancer
  - COPD
  - Heart conditions other than high blood pressure
  - Kidney, liver brain and other organ diseases
  - Crohn's disease
  - MS
  - Diabetes
  - HIV/AIDS
  - Conditions for which surgery is recommended and not performed or for which you are awaiting test results
- The objective is to avoid a large mark-up and focus on necessary federal funding and building of nation resources to treat these conditions.
- Cost is likely to be approx. one-third of ACA compliant policy
- We already tried to "insure" them, and it didn't work. We are still looking for someone to pay the bill.

II. Consumer-focused Tools & Transparency

- Fear of "list price" drives over-insurance, which drives over-consumption, which drives higher healthcare cost
- Think GoodRx
- Ever read an EOB?
- How much does an MRI cost?
- Make providers compete on the basis of quality and cost
- We need to know up-front to analyze cost:benefit
- Competition and quality will improve healthcare over time

III. New Individual Mandate

1. For those in high-risk pools (i.e., subsidized) an annual physical should be a requirement.
2. For those with chronic conditions, they should adhere to an evidenced-based plan of care under the supervision of the duly-licensed medical professional of their choice.

Sadly, many currently receiving benefits will choose not to take this initiative and will not have the coverage they need when neglect turns to emergency.

Their exit from the covered pools makes funding the others more feasible.

IV. High-risk Programs

- For those who are uninsurable or who have uninsurable conditions
- Concentrate buying power
- Offer minimum three-year provider agreements to promote long-term investment in cost-effective, profitable delivery models
- This will take time, but it is likely to result in bending the cost curve in a favorable direction.
- Successes and advancements, although potentially expensive initially, may be extrapolated to millions of Americans.
- Necessary to provide sustainable coverage for uninsurable conditions

Notice of Upcoming Event

- Careadigm offers a presentation on health plans in this region in October, after renewal rates are published and analyzed
- For group plans and professionals interacting with group health plan decision makers
- Last year we covered the new group process extensively
- Contact me to be included on the invitation list:
  - jeff.hinton@Careadigm.com
  - (865) 588-3545

Q&A

Thank you!