

**A.M. Best Company**  
**18th Annual**  
**Review & Preview Conference**

***Impact of Healthcare Reform***

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**AQUARIUS CAPITAL**

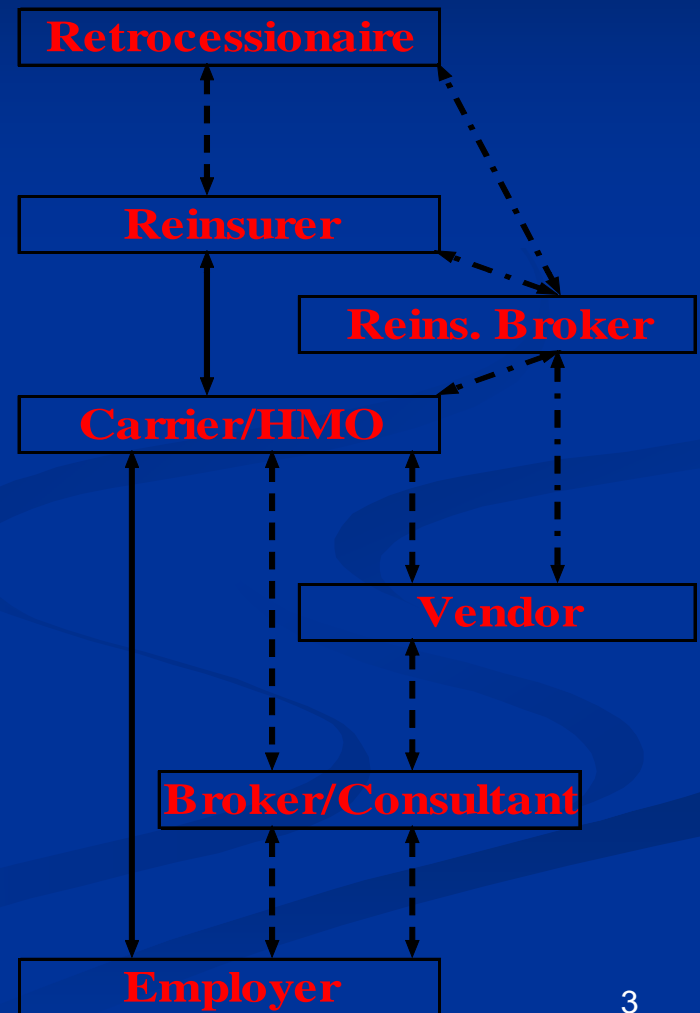
# Overview

- Impact on Employer Groups (Private & Public Sector)
- Brokers & Benefit Consultants
- Accountable Care Organizations
- Opportunity for Private Equity
- Reinsurance Market
- Regulatory Environment
- Resources to Know
- Open Discussion & Questions



# Health Insurance “Food Chain”

- Employer contracts with carrier/HMO
  - Fully insured arrangement
  - Self-funded w/ or w/o reinsurance
- Carrier/HMO’s administration options
  - Provided directly to employer
  - Outsourced to third party vendors
  - Vendors might take risk (capitation)
  - May buy reinsurance(s)
- Multiple reinsurers/retrocessionaires
- Brokers/Intermediaries potentially throughout the “food chain”
- Private equity firms material involvement



# Employers' Considerations

- Preventative Benefits
- Coverage to Age 26 for Dependent Children
- Unlimited Benefits
  - Traditionally \$1 million limits
  - Unions and certain industries have limited caps/benefits
- Healthcare Exchange
- Reporting Requirements
- Early Retirement Reinsurance Program (retirees age 55-64)
  - 80% Claims between \$15,000 and \$90,000



# Employers' Considerations (cont.)

To “Grandfather” or not to “Grandfather”....  
..... that is the question

*- William Shakespeare today?*



# Other Critical Items

- Employer Plan & Administrative Cost Increases
  - Cost of Annual Elections
  - Incorporating 1099 EEs into benefits
  - New reporting & disclosure requirements (e.g, taxes, SPDs, etc.)
  - Health Plan & Provider Surcharges passed on to employer plans.
- Premium Assistance Tax Credit
  - Requirements: 60% actuarial value; premium > 9.5% of income
- Small Employers – Tax Credits/Incentives
- Individuals – Defn. of Poverty Level & Medicaid Eligibility
  - Expansion of Medicaid to 133% of Federal Poverty Level (FPL)
  - Federal Subsidies to individuals up to 400% of FPL



# 2014 Planning

- Change in Waiting Periods (90 days)
  - Will impact certain industries more
- Free Ride Penalty:
  - Don't Offer Any Coverage: \$2k per employee per year penalty
    - Not regionally adjusted - - bigger incentive in higher cost markets
  - Unaffordable Coverage or Below 60% Actuarial Value: \$3k penalty
- Free Choice Vouchers
  - Federal Subsidies to individuals up to 400% of FPL
  - Vouchers used by employers to pay Exchange cost



# Municipalities Decisions

- Today:
  - Subsidize Higher % of Benefits
  - Offer Materially Richer Benefits than Private Sector
  - Implementing Reporting of GASB45 retiree benefits (last 3 years)
- Early Retirement Reinsurance Program ([www.errp.gov](http://www.errp.gov))
  - Municipalities: Provide pre-65 and post-65 retiree benefits
  - Primary Benefactor of Benefit – Incentive Not Large Enough to Attractive Private Sector to Add Benefits
- Healthcare Exchange
  - *Municipal Unions will find not attractive*



# Is the Car Industry Selling Cars to Pay for Retiree Medical?

What portion of this car is needed to fund retiree benefits?



# Loss Ratio Restrictions

- Minimum Medical Loss Ratios
  - 85% large group
  - 80% small groups/individuals

- Formula for Medical Loss Ratio Calculation:

$$\frac{(\text{Claims} + \text{Loss Adjustment Expenses} + \text{Activities to Improve Health Care})}{(\text{Earned Premium} - \text{State Fees})}$$

- Key Dates:
  - 2010: Require reporting of loss ratios
  - 2011: Require to provide rebates



# Broker Considerations

- Commissions – Paid out of SG&A
  - Current: Unbundling & Disclosure of Fees
  - 2011: Further Disclosure
  - Result: Reduction of Fees
- Need to be More Consultative
  - Provide Pricing Scenarios & Compliance Assistance
  - Value Added Services – Administration, Actuarial Services
- Need for Reinventing Themselves



# Health Insurance Exchanges

- Organizations exploring the Exchanges and Administrative “Role”
  - Health Plans (e.g., HMOs)
  - Brokers (e.g., General Agencies)
  - TPAs (e.g., Enrollers, Claims Payors)
  - Payroll Companies (e.g., Enrollment Companies)
  - Technology Companies
  - Wellness Companies



# Opportunity for Accountable Care Organizations (ACO)

- Risk Bearing Provider Groups
  - May include managed care carve-outs, wellness & disease management
- Potential Cost Reduction
- Creating Predictability in Claims Costs
- Providers having “skin in the game” on utilization
- Potential for health plan to delegate administrative responsibilities and costs

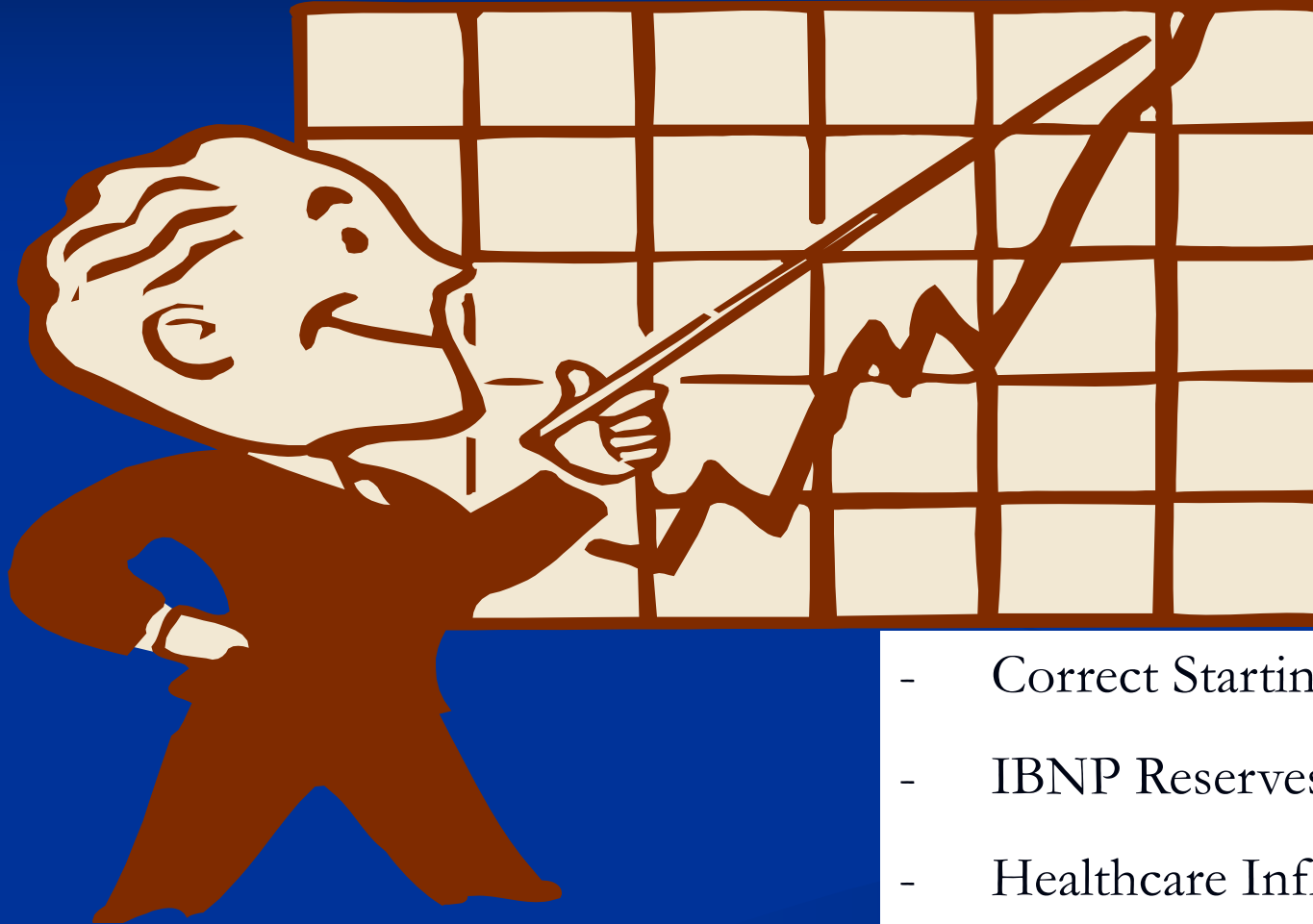


# ACO Considerations

- Managing SG&A costs
- Impact of Implementing Healthcare Reform
  - System Implementation
  - Reporting
  - Measuring and Maintaining Quality
- Outsourcing expenses to capitated third party vendors
  - How will minimum loss ratios be impacted by this?
- Health Plan Expectations of Provider Groups
  - Capital Requirements/Letter of Credit
  - Reinsurance
  - Parental Guarantees



# What is the Correct Measurement of Carve-Out Costs?



- Correct Starting Costs/Data
- IBNP Reserves
- Healthcare Inflation
- SG&A Costs



# ACO Challenges

- Quality of Data
- Availability of Data (Historical Information)
- Impact of Current Experience
- Changes in Underlying Population (e.g., demographics)
  - Definition of Poverty Level and Medicaid Eligibility
- Valuing the Impact of Plan Changes
- Anticipating Changes in Cost Structure and Financial Impact (e.g., network contracting, utilization)
- Impact of Regulatory Environment



# Opportunity for Private Equity Firms

- Healthcare is 16% to 17% of GNP
- Capital needs for Accountable Care Organizations (ACOs)
  - Funding for Business Plan Changes
  - Health Plan Risk Transfer/Capital Requirements
    - Reinsurance Capacity for ACOs is limited (need for aggregate stop loss)
    - Private equity may be a solution (though will require potential ownership of organization)
  - Leveraging and Integrating Other Portfolio Companies
    - ROI Strategy:  $1 + 1 > 2$



# Reinsurance Purchasers

- Insurance Carriers
  - Program Managers on Behalf of Insurance Carriers
    - Managing General Underwriters (MGUs)
    - Third Party Administrators (TPAs)
    - Marketing Entities/General Agencies
- Reinsurers/Retrocessionaires
- Captive Insurance Companies
- Health Maintenance Organizations (HMOs)
- Medical Provider Groups (“Risk Taking”)
- Employer Groups (“Self-Funded”)
- Disease Management & Wellness Companies
- Other ACOs



# Reinsurance Structures

- Quota Share
- Variable Quota Share
- Yearly Renewable Term (YRT)
- Portfolio Excess
  - **Specific (Per Person) Stop Loss**
  - **Aggregate Stop Loss - - - Limited Supply of this coverage for ACOs!!!!**
- Retrospective Premium Adjustments (“Swing Rate”)
- Contracts with Maximum Limit Caps
- Insolvency Coverage
- **Letter of Credit**
- Surety Bond
- **Parental Guarantees (“Keepwell” Agreement)**
- Separate Accounts & Cell Structures



# Reinsurance Pricing Considerations

- Multiple reinsurance structures (e.g., quota share, excess, etc)
- Unlimited Benefit Maximums
- Minimum Loss Ratio Requirements (impact to reinsurers and ACO)?
- Waiver of pre-existing conditions
  - Although direct writers need to cover, reinsurers may consider rating up or “lasering” certain large claimants?
- Case mix changes within a reinsurer
- Provider contracting changes
- Layer for pre-65 retirees (ages 55 to 64): 80% claims between \$15k & \$90k
  - Need to integrating with other reinsurance programs
- Impact of Leverage Trend
- Components that impact underlying business



# Survey of Insurance Dept Actuaries

- Type of Medicaid program (e.g., Managed)
  - Medicare Dual vs Non-Dual
  - TANF, SSI, and AFDC
- Revenue Development: Do plans file PMPM rates and the state approves/disapproves or does the state calculate the PMPM rate at which the plan will be paid.
- Actuarial Staff: In-house or subcontractor?
- If the state is determining PMPM rates, do they utilize morbidity risk adjustment factors for each plan?
  - Age Adjustment
  - Type of Medicaid (SSI, etc.)
  - Other: Various factors (e.g., CDPS system)



# Survey of Insurance Dept (Continued)

- Other state funded/subsidized plans beyond Medicaid for individuals who do not qualify for Medicaid but are below a certain income level?
  - Family Health Plus, Child Health Plus, etc.
  - *Fate of these programs to be determined.*
- State Reinsurance - Varies
  - HMOs paid capitation with certain services carve-out fee for service
  - Maternity, low birth weight, high cost drugs
- Changes in resources due to healthcare reform



# Insurance Department Actuaries

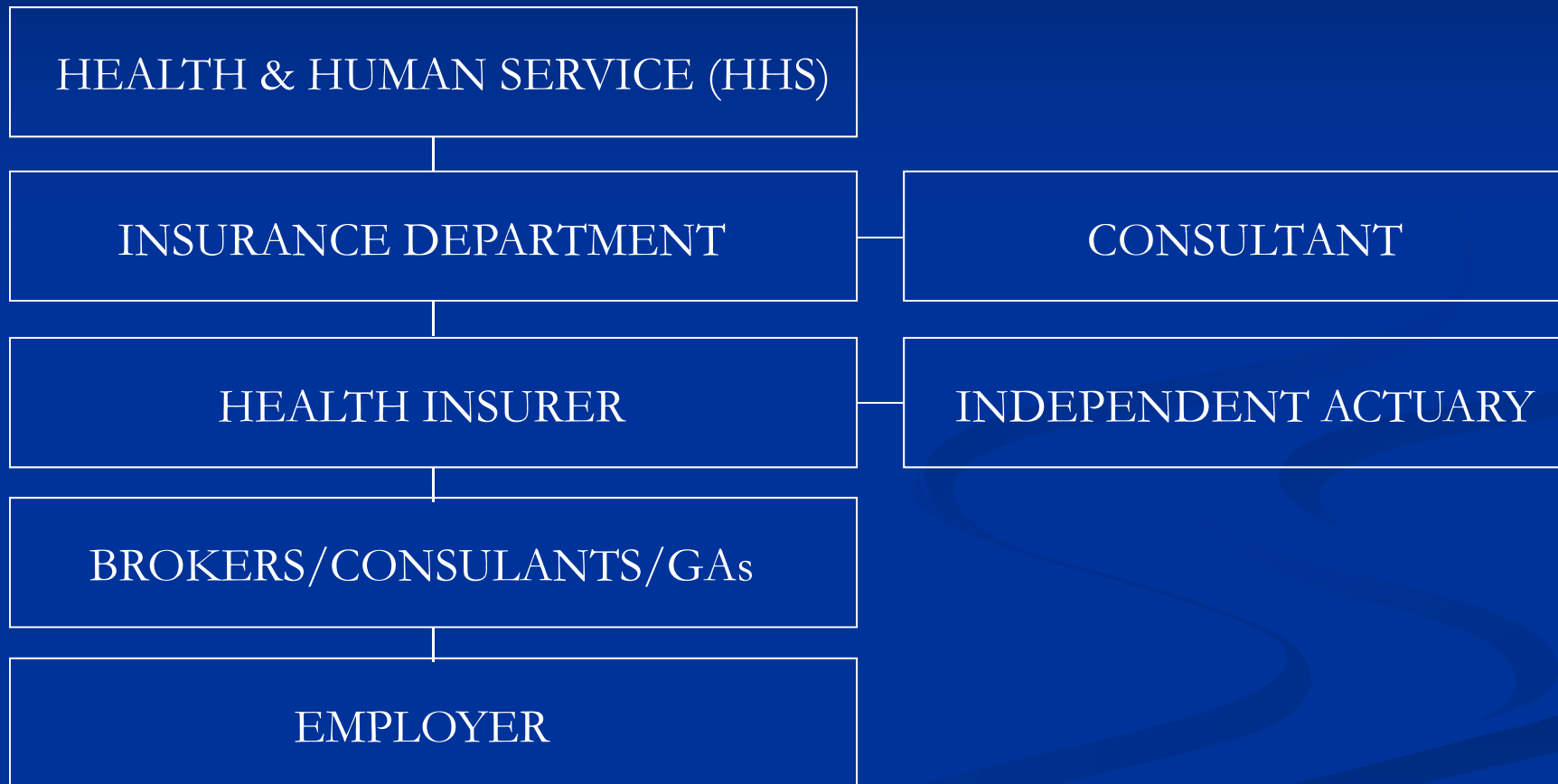
- 164 actuaries (all disciplines) in 36 states
- 42 health actuaries in 20 states

Number of <u>Actuaries</u>	Number of <u>States</u>	% <u>Total</u>
3+	4	8%
2	4	8%
1	12	24%
<u>0</u>	<u>30</u>	<u>60%</u>
Total	50	100%

- Many insurance departments will subcontract to third party actuaries (consultants) to evaluate health actuarial matters.
  - Rate Filings/Reviews, Reinsurance, Market Conduct Reviews
- *Issue: May create inconsistencies in the review process.*



# Is this the “Future” Rate Filing Process



# Websites to Know

- Department of Health & Human Services  
<http://www.hhs.gov/ociio/regulations>
- Kaiser Family Foundation ([www.kff.org](http://www.kff.org))
- Centers for Medicare & Medicaid Services ([www.cms.gov](http://www.cms.gov))
- My Health Guide ([www.myhealthguide.com](http://www.myhealthguide.com))
- Self-Insurance Institute of America ([www.SIIA.org](http://www.SIIA.org))
- Actuarial Organizations: Society of Actuaries ([www.soa.org](http://www.soa.org)) &  
American Academy of Actuaries ([www.actuary.org](http://www.actuary.org))
- Many Others



# What's Next

- Impact of Upcoming Elections
- Addressing Other Components of Healthcare
  - Tort Reform
  - Provider Reimbursements
  - Addressing the Gap between the “Haves” & “Have Nots”
  - Will Medicare Advantage plans survive Healthcare Reform?
  - Will shocking the healthcare system adversely impact economy?
  - Gearing Up for 2014 Changes



# Reform by 2014

- Prohibited from Rating based on Health Status Factors
- May be able to give discounts for wellness participation
- Guaranteed renewability of policies
- No Pre-existing Conditions (all ages)
- Unable to rate for the following:
  - Health Status or Disability
  - Medical History & Genetic Information
  - Specific Claims Experience
  - Evidence of Insurability
  - Receipt of Healthcare
  - Any other factors as determined by HHS



# Will 2014 Changes Save Cost?

- Sample Rates: New York Direct Pay Plan Rates (Albany County)
  - No Pre-existing Conditions and Mandated Benefits
  - Guaranteed Issue & No Underwriting
- Annual Premium in Dollars (Single Coverage)

<u>Annual Rates</u>	<u>HMO</u>	<u>POS</u>
Plan No. 1	11,715	15,392
Plan No. 2	11,606	14,501
Plan No. 3	25,997	31,196
Plan No. 4	15,558	17,821
Plan No. 5	12,939	16,016
Average	15,563	18,985

Source: New York State Insurance Department (<http://www.ins.state.ny.us/hmorates>), 3/6/11



# Open Discussion & Questions

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