

Health Reform: What We Know... What We Don't Know... & What the Future Holds



*Matt Eyles
Vice President, Public Affairs & Policy
September 23, 2010*

Agenda



- 180 Day Post-Enactment Report
- Status of Major Commercial Market / Employer Reforms
 - Immediate Reforms
 - Longer Term Changes
- Crystal Ball: What Does the Future Hold for Reform?



New Era Began on March 23

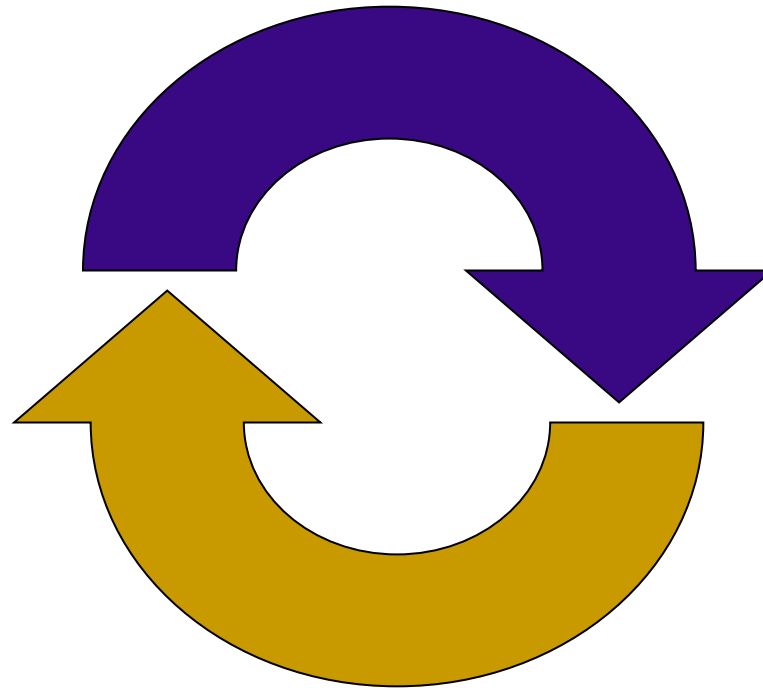


Legislation



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**Implementation
& Oversight**



Regulations



6 Months Later... The Future Is Coming Into Focus



- Many details were unknown about how reform would work and be implemented
- 180 days since enactment – still uncertainty – but the future is coming into focus
- Many new requirements apply to plan years (new plans and renewals) starting on or after **TODAY**



Reform Implementation Government Operations



- **Federal government extremely active since enactment**

- Created new reform bureaucracy to manage implementation and issued numerous rules

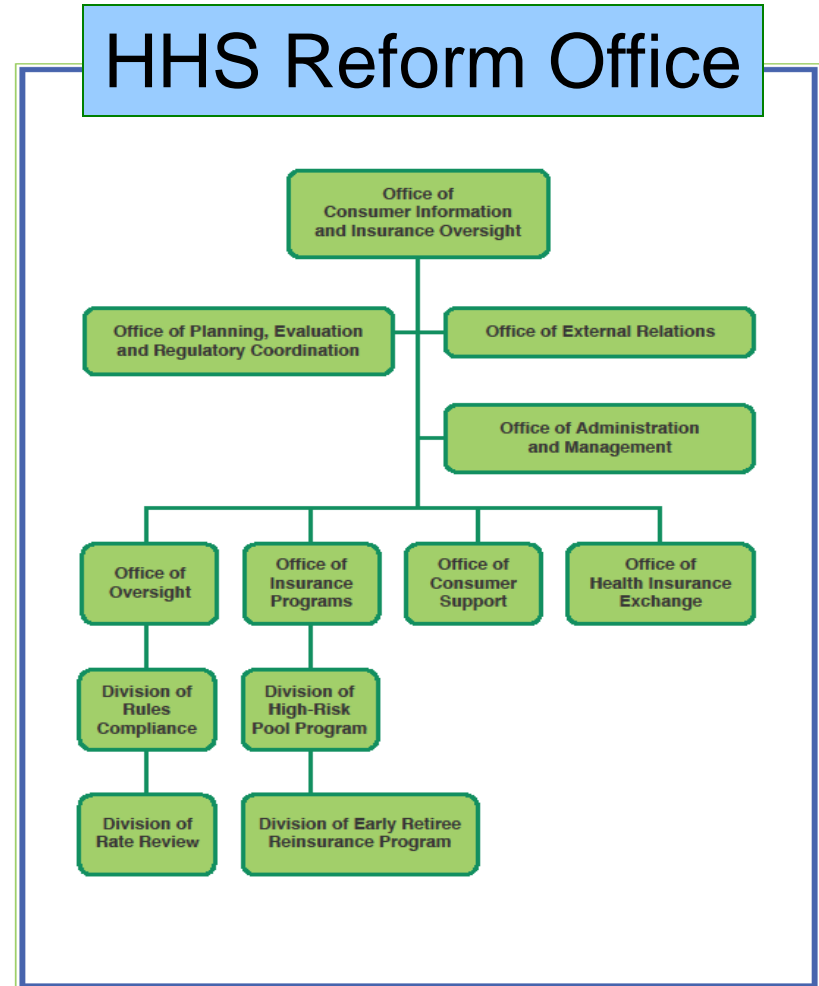
- **OCIIO (“O-Sigh-Oh”)**

- New HHS reform office staffed up with many former insurance regulators and academics

- **Centers for Medicare & Medicaid Services (CMS)**

- Recess appointment of Dr. Don Berwick as Administrator

HHS Reform Office



What We Know & Don't Know

Critical Effective Dates: 2010-2011



2010

- **MLR Reporting**
- **HHS Rate Review**
- Small Business Tax Credit

Black = Rules issued or defined

Red = Rules not yet defined

1/1

- Medicaid Drug Rebate Changes

3/23

- Grand-fathered Plans

6/15-7/1

- Early Retiree Reinsurance
- Federal Web Portal (healthcare.gov)
- Federal High Risk Pools
- \$250 Part D Coverage Gap Rebate Checks

9/23

- Under 26 Dependents
- Under 19 Pre-ex conditions
- Annual & Lifetime Limits
- **Essential Health Benefits**
- Appeals Process
- \$0 Preventive care
- ER, PCP, OB-GYN rules
- Rescissions

1/1/2011

- **85% / 80% Minimum MLR Rules**
- Medicare Advantage Plan Payment Changes
- Part D Branded Drug Coverage Gap Discount Program
- **Value of Health Benefits on W-2s**
- FSA/HRA/HSA Changes





Immediate Reforms Affecting the Commercial / Employer Market



Immediate Reforms

What We Know & Don't Know



| What We Know (effective date) | What We Don't Know (effective date) |
|--|---|
| <ul style="list-style-type: none">• Small business tax credit (2010)• Grandfathered plan rules (3/23)• Early retiree reinsurance program (6/23)• www.healthcare.gov (7/1)• Federal high risk pool program (7/1)• Under 26 dependent coverage (9/23)• Preexisting conditions (9/23)• Annual & lifetime limits (9/23)• Rescissions (9/23)• ER / PCP / OB-GYN access (9/23)• \$0 copay preventive services (9/23)• Nondiscrimination rules (9/23)• Appeals & external review (9/23)• www.healthcare.gov - phase 2 (10/1)• FSA rules for OTC drugs (2011 tax year) | <ul style="list-style-type: none">• Federal rate review process (2010)• MLR reporting requirements (2010)• Essential health benefits definition (9/23)• MLR calculation and rebates (1/1/11)• W-2 Reporting (2011 tax year) |



Immediate Post-Reform Requirements



ALL PLANS at First Renewal after 9/23

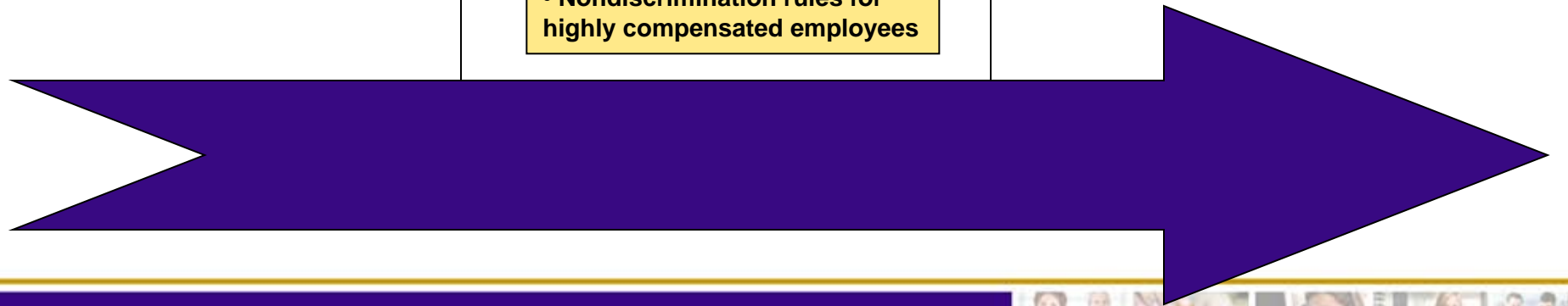
- Cover dependents (i.e., any adult child) to age 26
- No annual or lifetime limits with some exceptions
- No pre-existing conditions for children under 19
- No rescissions except in cases of fraud or intentional misrepresentation

ALL PLANS at First Renewal after 9/23 EXCEPT Grandfathered

- \$0 co-pay for preventive care
- New rules on access to emergency rooms
- New rules on access to primary care physicians and pediatricians
- New rules on access to OB-GYNs
- Mandatory appeals and external review process
- Nondiscrimination rules for highly compensated employees

ALL PLANS for 2011

- No FSA/HSA/HRA reimbursement for OTC drugs unless have prescription
- Reporting of the value of employee health benefits on W-2 forms (2011 tax year)
- Rebates for insurers exceeding targeted medical loss ratios



Small Business Tax Credit



What We Know

- New sliding scale tax credit starting for 2010-2013
- Applies to employers <25 FTEs and average wages <\$50K
- Credit drops sharply as employee size and wages grow

What We Don't Know

- How many companies will apply or seek new coverage

New Small-Group Tax Credit

STILL NOT SURE YOU QUALIFY?

1

Do you have less than 25 full-time¹ employees?

2

Do your employees have annual average wages of less than \$50,000?

3

Do you pay at least 50% of the cost of the employee only premium?



If you answered yes to all of these questions, you may be eligible to receive a tax credit of up to 35%² of your share of health, dental, and vision insurance premiums. Use the worksheet on the reverse side to find out.



Grandfathered Plans



...no matter how we reform health care, we will keep this promise: If you like your doctor, you will be able to keep your doctor. Period. If you like your health care plan, you will be able to keep your health care plan. Period. No one will take it away. No matter what. My view is that health care reform should be guided by a simple principle: fix what's broken and build on what works."

- President Obama at the AMA Annual Meeting, June 15, 2009

HHS-OCIIO Cumulative Estimate of Plans Relinquishing Grandfathered Status: 2011-2013*

| | 2011 | 2012 | 2013 |
|----------------------|-----------------|------|------|
| Small Employer Plans | 30% | 51% | 66% |
| Large Employer Plans | 18% | 33% | 45% |
| Individual Plans | 40-67% annually | | |

Notes:

Small Employers = 3 to 99 employees

Large Employers = 100+ employees

- Assumes 2% of large employers and 6% of small employers relinquish status due to change in issuer



Grandfathered Plans

What Are They? What Changes Can Be Made?



- ACA status associated with benefit plans in existence on March 23 that are exempt from some new reform rules

| Plan Change | Requirement |
|---|---|
| Carrier / Insurer | <ul style="list-style-type: none">• Changing carrier for fully insured even if plan stays the same |
| Coverage | <ul style="list-style-type: none">• Eliminating all or substantially all benefits for particular condition• Adding or decreasing annual limits or imposing annual limit when only lifetime limit existed |
| Coinsurance | <ul style="list-style-type: none">• Any increase of coinsurance or adding it where it didn't exist |
| Fixed cost sharing and co-payments | <ul style="list-style-type: none">• Increasing deductibles or OOP max by more CPI-Medical + 15%• Increasing co-pay by more than \$5 OR the old co-pay by more than CPI-Medical + 15 pp |
| Employer contribution | <ul style="list-style-type: none">• Decreasing employer contribution by more than 5% |



Grandfathered (GF) Plans

Applicability of New Reform Requirements



| | ✓ = Applies to GF Plan | | |
|--|------------------------|----|------------|
| | LG | SG | Individual |
| \$0 co-pay for preventive services | | | |
| Do not discriminate in favor of highly compensated individuals | | | |
| Report on quality of care improvement activities | | | |
| No preexisting condition exclusions for under 19 | ✓ | ✓ | |
| Establish internal claims appeal process & external review | | | |
| Provide ER services w/o prior auth, regardless of provider status, and at in-network level | | | |
| Access to in-network PCP/pediatrician if PCP designation required | | | |
| Prohibit prior authorization or referral to OB-GYN for in-network providers | | | |



Grandfathered (GF) Plans

Applicability of New Reform Requirements



| | ✓ = Applies to GF Plan | | |
|--|------------------------|----|------------|
| | LG | SG | Individual |
| Prohibition of preexisting condition exclusion | ✓ | ✓ | |
| Prohibition on waiting periods over 90 days | ✓ | ✓ | ✓ |
| No lifetime limits on essential benefits | ✓ | ✓ | ✓ |
| No annual limits on essential benefits | ✓ | ✓ | |
| Prohibition on rescission | ✓ | ✓ | ✓ |
| Age 26 dependent coverage | ✓* | ✓* | ✓ |
| Uniform explanation of coverage documents | ✓ | ✓ | ✓ |
| MLR reporting & minimum (insured plans) | ✓ | ✓ | ✓ |

*May deny/decline coverage if dependent is eligible for own employer-sponsored coverage



Under 26 Dependent Coverage Rules



| What We Know | What We Don't Know |
|--|---|
| <ul style="list-style-type: none">• Area of attention in early post-reform days<ul style="list-style-type: none">– HHS Secretary sent letters to insurers asking to implement early and many agreed (with some differences)• New coverage requirement applies to grandfathered and non-GF plans<ul style="list-style-type: none">– Under 26 child = dependent– Must treat all minor dependents the same– Special enrollment period for children AND parents | <ul style="list-style-type: none">• How many new under 26 dependents will come on to their parents' plans<ul style="list-style-type: none">– HHS estimates 190,000 to 1.64 million under 26 dependents will gain new coverage |



Under 26 Dependent Coverage 65+ Early Implementers



Coventry Health Care, Inc.
Blue Cross and Blue Shield of Alabama
Blue Cross Blue Shield of Delaware
Blue Cross and Blue Shield of Arizona, Inc.
Blue Cross and Blue Shield of Florida
Arkansas Blue Cross and Blue Shield
Blue Cross and Blue Shield of Hawaii
Blue Shield of California
Blue Cross of Idaho Health Service
Regence Blue Shield of Idaho
Wellmark Blue Cross and Blue Shield of Iowa
Health Care Service Corporation
Blue Cross and Blue Shield of Kansas
Blue Cross Blue Shield Association
Blue Cross and Blue Shield of Louisiana
WellPoint, Inc.
CareFirst BlueCross and BlueShield
Blue Cross and Blue Shield of Massachusetts
Blue Cross and Blue Shield of Kansas City
Blue Cross and Blue Shield of Michigan
Blue Cross and Blue Shield of Montana
Blue Cross and Blue Shield of Minnesota
Blue Cross and Blue Shield of Nebraska
Blue Cross & Blue Shield of Mississippi
Horizon Blue Cross and Blue Shield of New Jersey, Inc.
HealthNow New York, Inc.
The Regence Group
Excellus Blue Cross and Blue Shield
Capital BlueCross
Blue Cross and Blue Shield of North Carolina
Independence Blue Cross
BlueCross BlueShield of North Dakota

Highmark, Inc.
Blue Cross of Northeastern Pennsylvania
BlueCross and BlueShield of Tennessee
Blue Cross and Blue Shield of Vermont
Blue Cross & Blue Shield of Rhode Island
Premera Blue Cross
Blue Cross and Blue Shield of South Carolina
Blue Cross and Blue Shield of Wyoming
Kaiser Permanente
Cigna
Aetna
United
Humana
Capital District Physicians' Health Plan (CDPHP), Albany, NY
Capital Health Plan, Tallahassee, Florida
Care Oregon, Portland, Oregon
Emblem Health, New York, New York
Fallon Community Health Plan, Worcester, Massachusetts
Geisinger Health Plan, Danville, Pennsylvania
Group Health, Seattle, Washington
Group Health Cooperative Of South Central Wisconsin
Health Partners, Minneapolis, Minnesota
Independent Health, Buffalo, New York
Kaiser Foundation Health Plan Oakland, California
Martin's Point Health Care, Portland, Maine
New West Health Services, Helena, Mt
The Permanente Federation, Oakland, California
Priority Health, Grand Rapids, Michigan
Scott & White Health Plan, Temple, Texas
Security Health Plan, Marshfield, Wisconsin
Tufts Health Plan, Waltham, Massachusetts
UCARE, Minneapolis, Minnesota
UPMC Health Plan, Pittsburgh, Pennsylvania



Annual & Lifetime Limits



What We Know

- No lifetime limits on DOLLAR value of “essential health benefits” after 9/23
- Phased-in annual limits on EHB between now and 2014
 - \$750K starting Oct ‘10
 - \$1.25MM starting Oct ‘11
 - \$2MM for Oct ‘12 – 2014

What We Don't Know

- Regulatory definition of essential health benefits

Essential Benefits Categories

- Ambulatory patient services
- ER services
- Hospitalization
- Maternity/newborn care
- Mental health & substance abuse care
- Prescription Drugs
- Rehabilitative & habilitative services and devices
- Labs
- Prevention and wellness
- Pediatric services, including oral/vision/dental



First Dollar Coverage of Preventive Services



- No co-pay for preventive services
 - USPSTF A/B rated services
 - Recommended immunizations
 - Others defined by government agencies

Applies only to non-grandfathered plans at first renewal after 9/23

■ Preventive Care Coverage ■

PREVENTIVE CARE SERVICES ARE KEY FOR MEMBERS
 At Coventry Health Care, we encourage members to receive preventive care services. The Patient Protection and Affordable Care Act (PPACA) provides for specific preventive services when provided by participating providers to be covered at 100 percent. Our fully insured group health plans already provide coverage for many of those preventive services. Starting on October 1, 2010, for all new plans and for renewing plans that are not grandfathered plans, as of the plan's effective date/renewal date, members who use our network providers will receive preventive care services paid at 100 percent.

COVERAGE FOR PREVENTIVE SERVICES
 Here are some examples of the preventive services that will be covered with no copay, coinsurance or deductible.

| Child Preventive | Adult Preventive |
|--|--|
| Exams: Preventive office visits including well child care | Exams: Preventive office visits including well woman exam |
| Immunizations: Influenza (flu) Pneumonia Hepatitis A Hepatitis B Diphtheria, Tetanus, Pertussis Varicella (chicken pox) Measles, Mumps, Rubella (MMR) Polio Rotavirus Meningococcal Human Papillomavirus (HPV) | Immunizations: Influenza (flu) Pneumonia Hepatitis A Hepatitis B Diphtheria, Tetanus, Pertussis Varicella (chicken pox) Measles, Mumps, Rubella (MMR) Polio Rotavirus Meningococcal |
| Screening Tests: Hearing screening, Eye chart screening, PKU screening (newborns), Sickle cell screening (newborns) | Screening Tests: Breast cancer screening, Cervical cancer screening, Colorectal cancer screening, Prostate cancer screening, Bone density, Lipid panels, Abdominal aneurysm aortic screening, Screening for sexually transmitted diseases, HIV test, General and immunological labs, Routine blood and urine screenings |
| Newborn Preventive Treatment: Gonorrhea treatment | |

The list is subject to change as federal guidance is issued. The full list of covered preventive services issued with the Interim Final Rules can be found at <http://www.healthcare.gov/center/regulations/prevention/taskforce.html>

Talking with Your Provider about Preventive Care
 We process claims based on your provider's clinical assessment of the office visit. If a preventive item or service is billed separately, cost-sharing may apply to the office visit. If the primary reason for your visit is seeking treatment for an illness or condition, and preventive care is administered during the same visit, cost-sharing may apply. This means your provider may ask you to pay your appropriate health plan copay, deductible or coinsurance.

Certain screening services, such as a colonoscopy or mammogram, may identify health conditions that require further testing or treatment. If a condition is identified through a preventive screening,

any subsequent testing, diagnosis, analysis or treatment are not considered preventive services and are subject to the appropriate cost-sharing.

If you have questions about a claim or provider visit, please call the customer service number on your Member ID card or speak with your provider. Please regularly check our website for new information about preventive care coverage as the government agencies refine guidance and requirements.

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CVTYMEMPREV0710





Important:

- CHANGE TO MEDICAL SPENDING ACCOUNTS ■
THAT MAY AFFECT YOU

What We Know

- Starting 2011, no HSA, FSA, HRA reimbursement except for prescription medicines and insulin
- No OTC drug reimbursement without a valid prescription



W-2 Reporting Requirement



What We Know

- Report “value” of employer sponsored coverage on each employee’s W-2 form
- Effective starting 2011 tax year with first reporting in 2012
- Allocate based on COBRA rules
- Excludes HSA / FSA contributions

What We Don’t Know

- Specific IRS reporting requirements

| | | | | | |
|---|--|---|--------------------------------|--|--|
| a Control number 200655 | | 2222 | Final <input type="checkbox"/> | For Official Use Only OMB No. 1545-0048 | |
| b Employer identification number 13050906-2526 | | 1 Wages, tips, other compensation \$ 25,000 | | 2 Federal income tax withheld \$ 10,000 | |
| c Employer's name, address, and ZIP code Mike Gold 179 Pond Rd. Freehold, NJ 07728 | | 3 Social security wages \$ 3,000 | | 4 Social security tax withheld \$ 1500 | |
| d Employer's social security number 550-29-4531 | | 5 Medicare wages and tips \$ 3,000 | | 6 Medicare tax withheld \$ 235 | |
| e Employer's first name and initial Michael | | 7 Social security tips \$ 295 | | 8 Allocated tips \$ | |
| Last name Gold | | 9 Advance EIC payments \$ | | 10 Dependent care benefits \$ | |
| f Employer's address and ZIP code | | 11 Nonqualified plans \$ | | 12a See instructions for line 12 \$ | |
| 15a SSN | | 13 Health insurance <input type="checkbox"/> | | 12b \$ | |
| Employer's state ID number | | 13b Supplemental plan <input type="checkbox"/> | | 12c \$ | |
| \$ | | 13c Other plan <input type="checkbox"/> | | 12d \$ | |
| \$ | | 14 Other \$ | | \$ | |
| \$ | | 15b State wages, tips, etc. \$ | | 17 State income tax \$ | |
| \$ | | 16 Local wages, tips, etc. \$ | | 18 Local income tax \$ | |
| \$ | | 19 Local wages, tips, etc. \$ | | 20 Locally levied \$ | |

Form **W-2** Wage and Tax Statement **2001** Department of the Treasury—Internal Revenue Service
Copy A For Social Security Administration—Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable. OMB No. 1545-0048
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page



Preview of the Future Exchange World



The screenshot shows the HealthCare.gov website in a Windows Internet Explorer browser window. The address bar displays "http://www.healthcare.gov/". The browser's menu bar includes "File", "Edit", "View", "Favorites", "Tools", and "Help". The website header features the "HealthCare.gov" logo, a search bar, and navigation links for "Newsroom" and "Implementation Center". Below the header, there are five main navigation buttons: "Find Insurance Options", "Learn About Prevention", "Compare Care Quality", "Understand the New Law", and "Information for You".

The main content area is divided into two sections. On the left, a blue box titled "Explore your coverage options" contains the text "Find out which private insurance plans, public programs and community services are available to you." and a "Pick Your State" dropdown menu with a "GO" button. On the right, a larger section titled "Your Health Care, Explained" features a photograph of a woman and a child. Below the photo is a list of categories: "Families with Children", "Individuals", "People with Disabilities", "Seniors", "Young Adults", and "Employers".

At the bottom of the page, there are two yellow boxes. The left one is titled "New Pre-Existing Condition Insurance Plan" and includes a "Find Your State Plan" button. The right one is titled "IN FOCUS: Health Care Providers" and includes a stethoscope icon and text about the Affordable Care Act's support for medical providers.

The Windows taskbar at the bottom shows the "Start" button, several open applications (including "Inbox - Micros...", "SEARCH RESU...", "Health Care...", "Health Reform...", "USPSTF A or B...", "Kaiser Daily H...", "AHIP Washing...", "AFW Staff-He...", "KHN - Afterno...", and "Coventry Heal..."), and the system tray with the date and time "9:21 AM Tuesday".





Longer Term Reforms



Longer Term Reforms

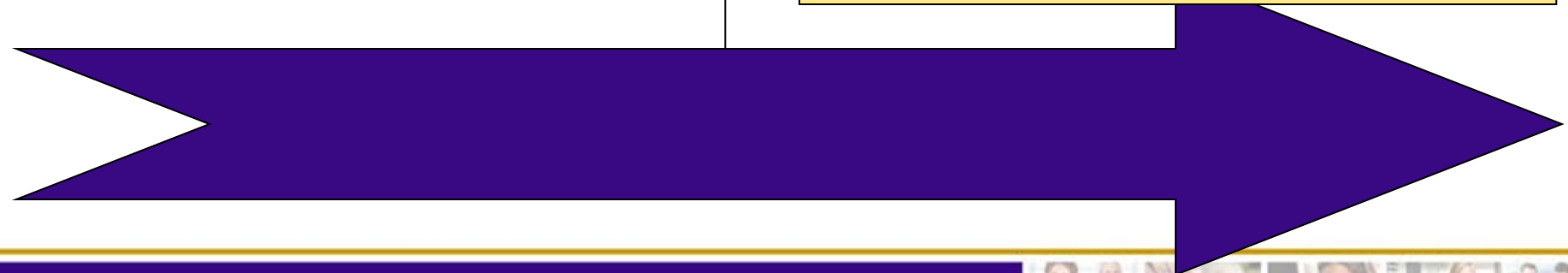


2013

- Annual FSA contributions limited to \$2,500
- 3.8% Medicare tax on net investment income for individuals with income >\$200/\$250K
- Added 0.9% Part A tax on individuals with income >\$200K/\$250K
- Eliminate employer deduction for Part D drug subsidy

2014

- Employer coverage mandate (over 50 employees) with penalties for non-coverage
- Individual coverage mandate
- Waiting periods limited to 90 days
- Annual dollar limits prohibited
- Coverage for pre-existing conditions for all ages
- Dependent coverage to age 26 even if child eligible for employer coverage
- Small group plan deductibles limited to \$2K / \$4K
- Rating based on health status prohibited



Key Components of 2014+ Market



| Component | Brief Summary |
|---------------------------|---|
| Individual mandate | <ul style="list-style-type: none">• Minimum essential benefits (MEB) coverage requirement• Penalty is greater of \$95 or 1% of income (2014) rising to \$695 or 2.5% (2016)• Premium credits up to 400% FPL (\$88,200 for Family of 4) |
| Employer Penalty | <ul style="list-style-type: none">• Employers with >50 FTEs must offer affordable MEBs (<9.5% of employee income)• \$2K / \$3K penalty per FTE if coverage not offered (excludes first 30 FTEs) or not adequate and employee receives government assistance• Employee free choice vouchers |



Key Components of 2014+ Market



| Component | Brief Summary |
|---------------------------|--|
| Insurance Exchange | <ul style="list-style-type: none">• Establishes state-based American Health Benefit Exchanges• Directs states to create “SHOP Exchange” (small business) and allows those up to 100 employees to purchase• Four benefit categories: Bronze, Silver, Gold, Platinum |
| Taxes | <ul style="list-style-type: none">• New taxes and fees on insurers, medical device, and drug manufacturers• Additional taxes on higher income individuals (2013)• FSA contributions limited to \$2,500 (2013)• “Cadillac” plan tax (2018) |



Health Reform & Employers

What Will They Do? One View



Firm Size > 50

| Percent of Federal Poverty Level | Income ¹ | Tax Bracket ² | Wage Equivalent of Employer Health Plan ³ | Federal Subsidies ⁴ | Required Pay Raise ⁵ | Employer Free Cash Flow ⁶ | Employer Decision ⁷ |
|----------------------------------|---------------------|--------------------------|--|--------------------------------|---------------------------------|--------------------------------------|--------------------------------|
| 133% | \$31,521 | 15% | \$14,048 | \$14,176 | (\$128) | \$9,941 | Drop |
| 150% | \$35,550 | 15% | \$14,048 | \$13,385 | \$663 | \$9,941 | Drop |
| 200% | \$47,400 | 25% | \$15,921 | \$10,985 | \$4,936 | \$9,941 | Drop |
| 250% | \$59,250 | 25% | \$15,921 | \$7,530 | \$8,391 | \$9,941 | Drop |
| 300% | \$71,100 | 25% | \$15,921 | \$5,187 | \$10,734 | \$9,941 | Keep |
| 400% | \$94,800 | 28% | \$16,585 | \$2,935 | \$13,650 | \$9,941 | Keep |

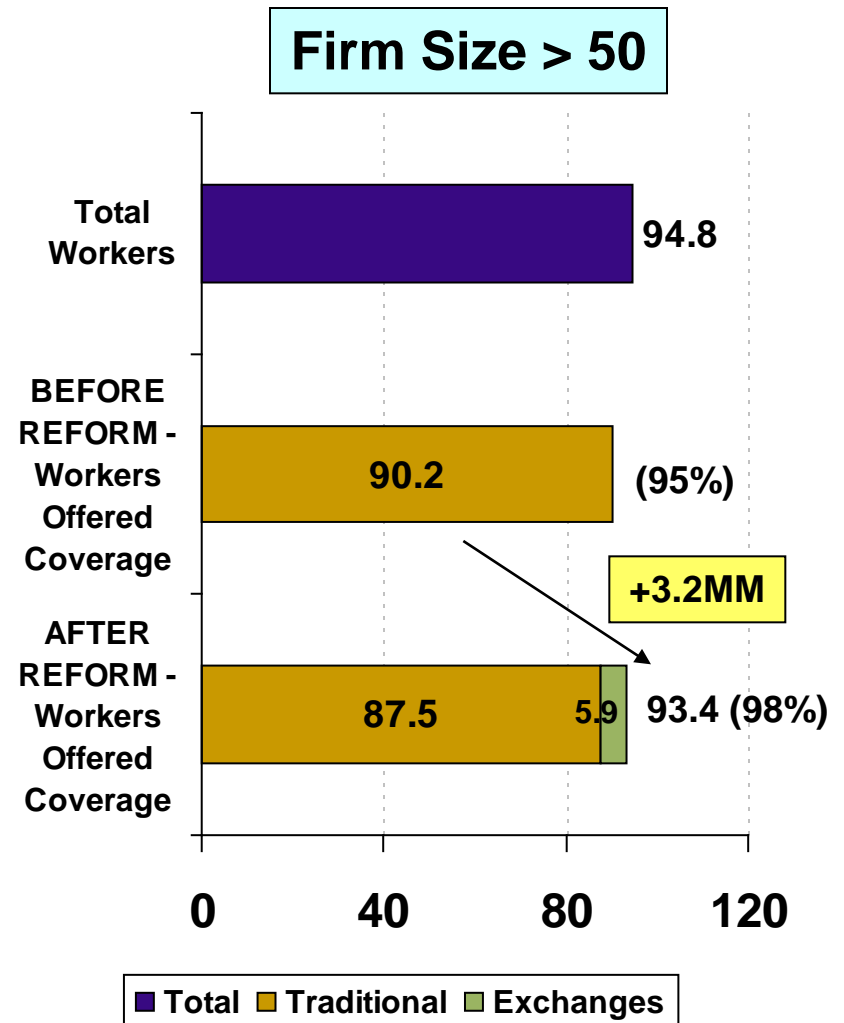
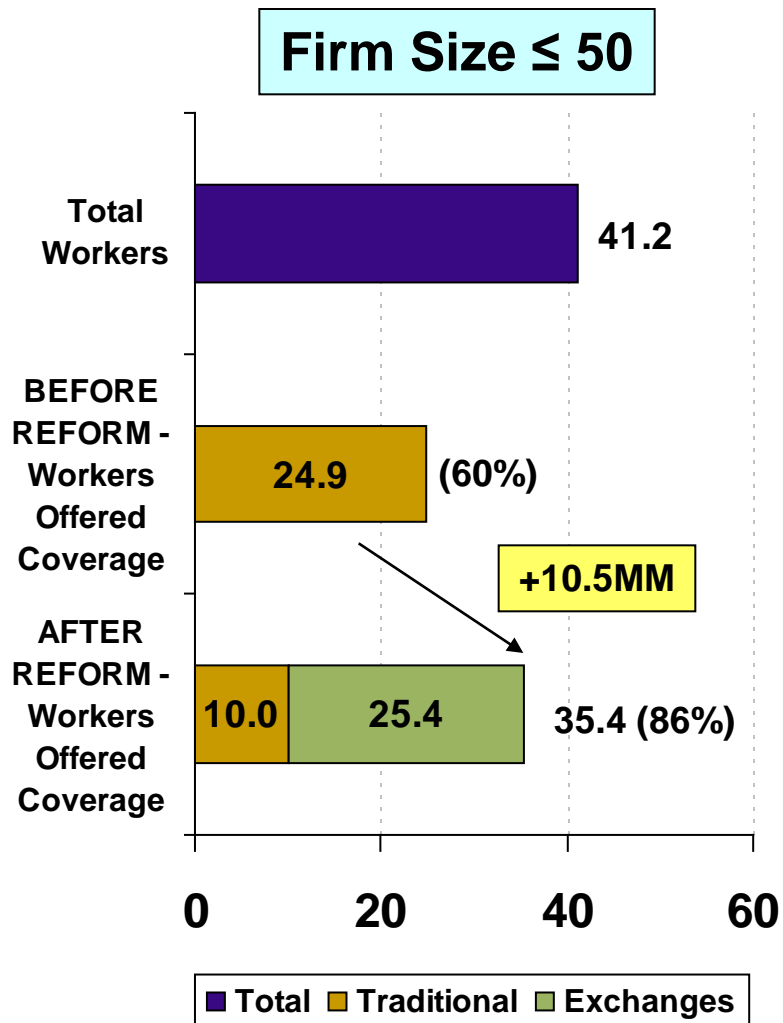
1. Income calculated based on 2009 FPL for a family of four (HHS), indexed to CPI projections (CBO)
2. Tax bracket based on 2010 tax brackets, indexed to CPI projections (CBO)
3. Computed as CBO estimate of Silver Plan in 2016, indexed to 2014 (\$11,941) and divided by (1 – Tax Rate)
4. Estimated federal insurance subsidy
5. Wage equivalent minus subsidies
6. Value of insurance plan minus \$2,000 penalty
7. Drop if required pay raise is greater than free cash flow

Source: "Labor Markets and Health Care Reform: New Results," *American Action Forum*. Douglas Holtz-Eakin (May 2010)



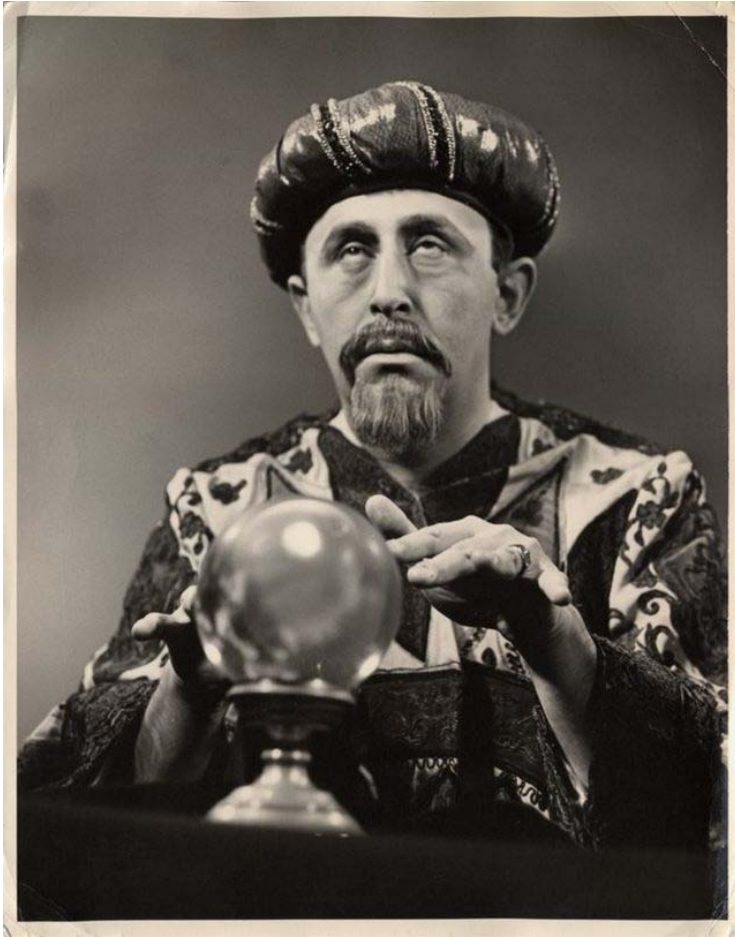
Health Reform & Employers

What Will They Do? Different View



Source: *New England Journal of Medicine* (3 Sep 2010) based on RAND Corporation model

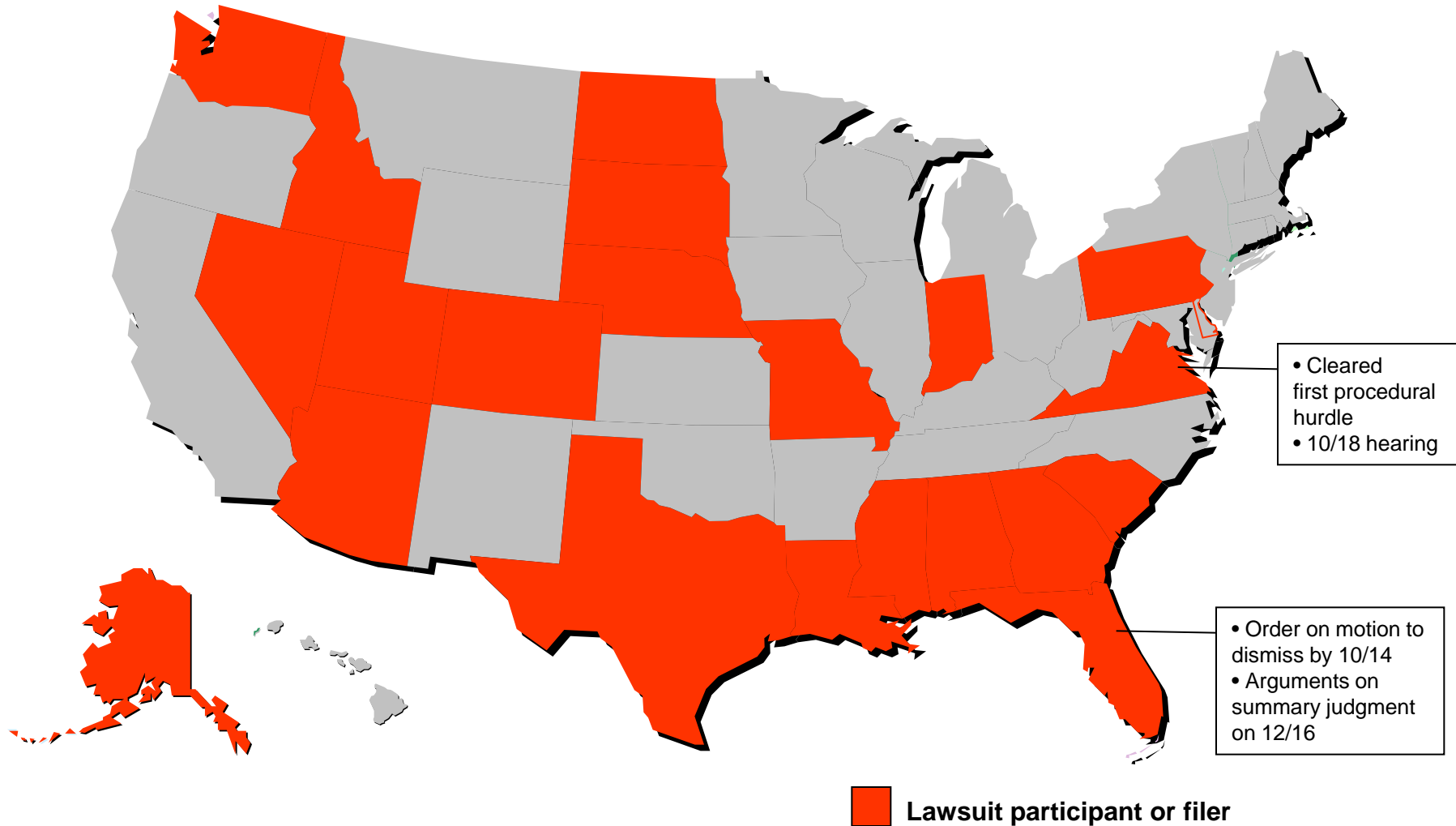




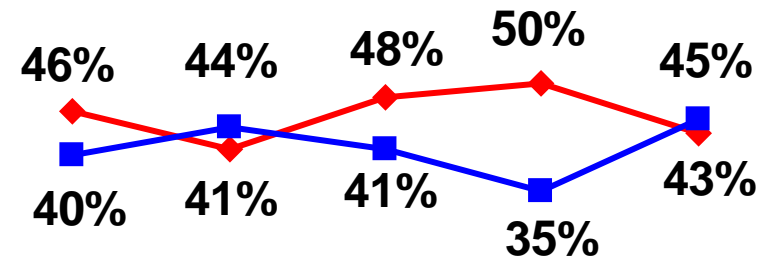
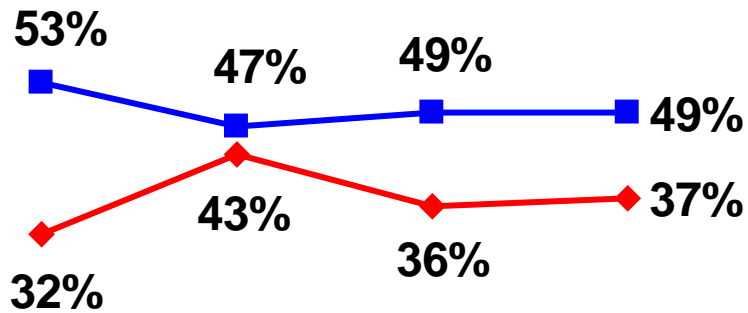
Future Outlook



States Lawsuits on Constitutionality of Health Reform



The Politics of Health Reform



◆ Approve ■ Disapprove

◆ Favorable ■ Unfavorable

Source: CBS News Poll (conducted Sept 10-14, 2010)

Source: Kaiser Family Foundation Health Tracking Poll (conducted Aug 16-22, 2010)

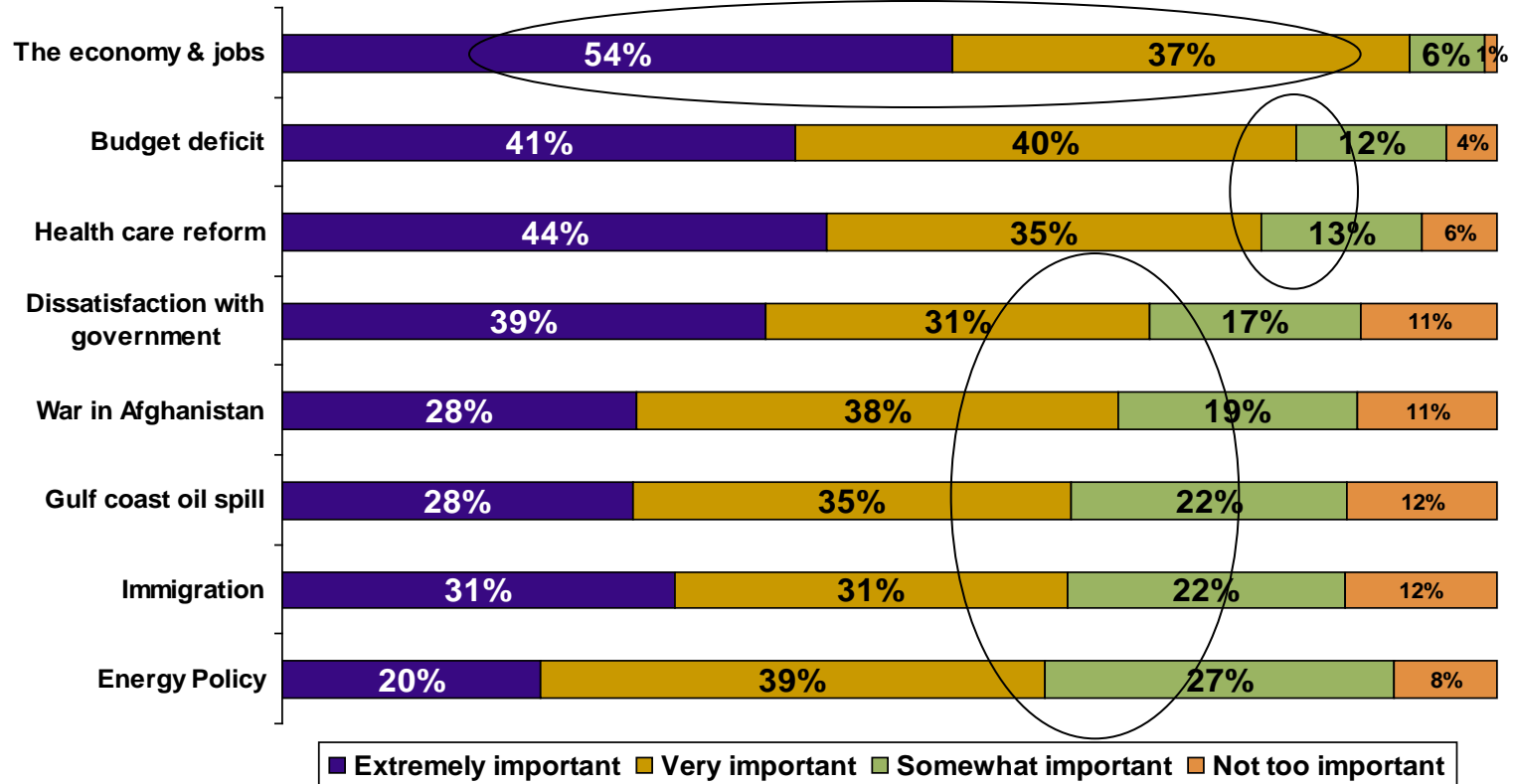
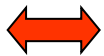


Key Election Issues for Registered Voters



How important will each of the following issue be to your vote for Congress this year?

Chg since July



Source: Kaiser Family Foundation Health Tracking Poll (conducted Aug 16-22, 2010)



Some Levers of Change



- Outcome of Constitutional lawsuits
- Appropriations, oversight and legislative process
- Regulatory process





THANK YOU

QUESTIONS??

